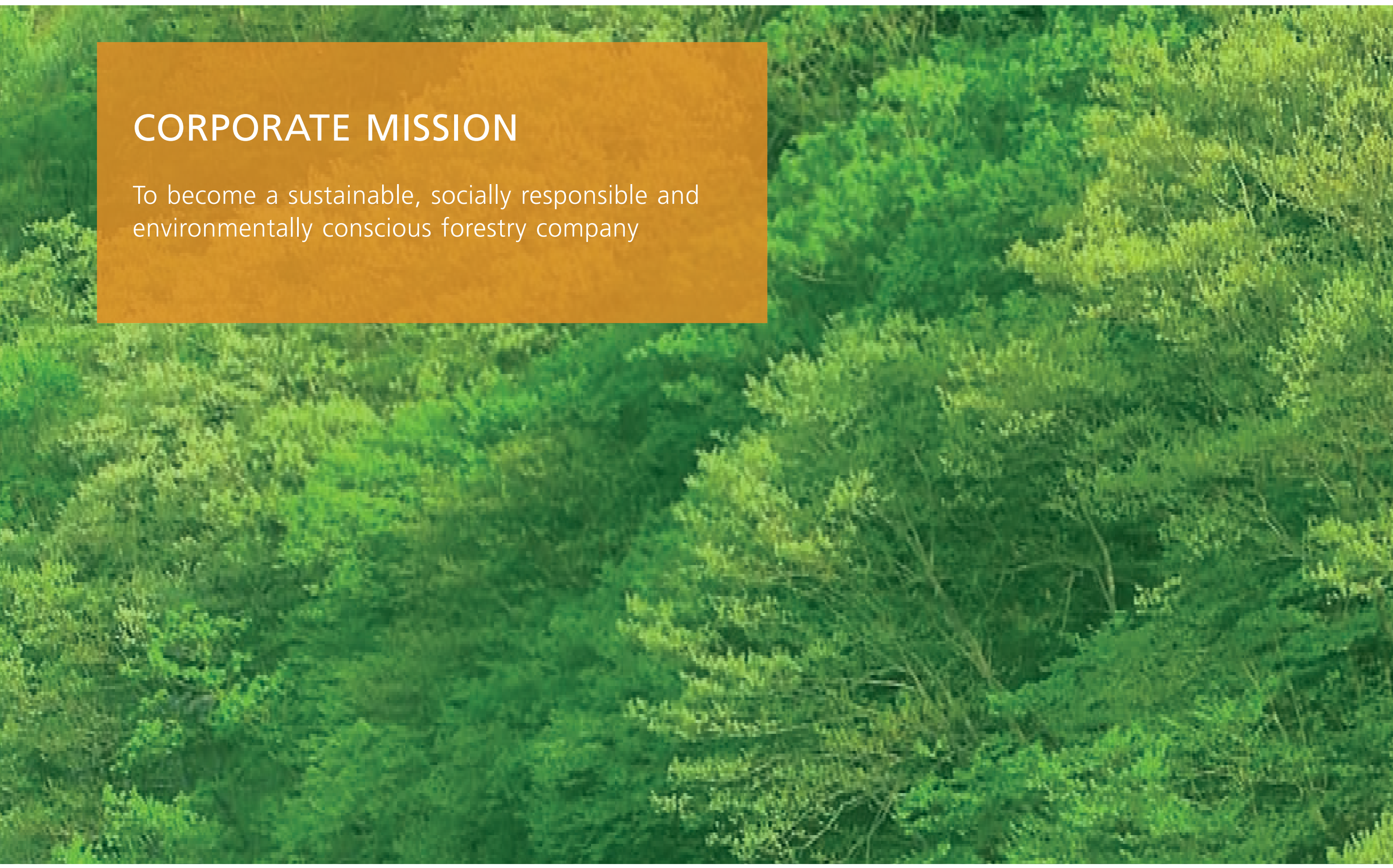
CHINA FORESTRY HOLDINGS CO., LTD.

中國森林控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE：930

2010 ANNUAL REPORT



CORPORATE MISSION

To become a sustainable, socially responsible and environmentally conscious forestry company

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CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Kwok Cheong (Chairman)
Mr. Li Han Chun
Mr. Lin Pu (appointed on 1 January 2011)

NON-EXECUTIVE DIRECTORS

Mr. Xiao Feng
Mr. Li Zhi Tong
Mr. Meng Fan Zhi (appointed on 1 January 2011)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Tak-jun
Mr. Liu Can
Mr. Zhu De Miao (appointed on 1 January 2011)
Mr. Wang Wei Ying (resigned on 1 January 2011)

AUDIT COMMITTEE

Mr. Wong Tak-jun (Chairman)
Mr. Liu Can
Mr. Zhu De Miao (appointed on 1 January 2011)
Mr. Wang Wei Ying (resigned on 1 January 2011)

REMUNERATION COMMITTEE

Mr. Wong Tak-jun (Chairman)
Mr. Xiao Feng
Mr. Zhu De Miao (appointed on 1 January 2011)
Mr. Wang Wei Ying (resigned on 1 January 2011)

NOMINATION COMMITTEE

Mr. Li Han Chun (Chairman)
Mr. Liu Can
Mr. Zhu De Miao (appointed on 1 January 2011)
Mr. Wang Wei Ying (resigned on 1 January 2011)

COMPANY SECRETARY

Mr. Tong Wai Kit, Raymond (FCCA, FCPA)

AUTHORISED REPRESENTATIVES

Mr. Li Kwok Cheong
Mr. Tong Wai Kit, Raymond (FCCA, FCPA)

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Chaoyang District Beijing, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2507, 25th Floor
Bank of America Tower
12 Harcourt Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House 68 Fort Street
P.O. Box 609 Grand Cayman
KY1-1107 Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre,
183 Queen's Road East
Wanchai Hong Kong

AUDITORS

KPMG
8/F, Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISERS

as to Hong Kong law
Orrick, Herrington & Sutcliffe
43/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

WEBSITE ADDRESS

www.chinaforestryholding.com

STOCK CODE

00930

SHARE INFORMATION

Board lot size: 2,000

CHAIRMAN'S STATEMENT

Li Kwok Cheong
Chairman

DEAR SHAREHOLDERS,

It was an unusual year for the Company last year. At the beginning of 2011, irregularities were found out that Mr. Li Han Chun, the former chief executive officer of the Company, had embezzled the funds of the Company and violated other regulations (the "Event"), which had a negative impact on the results and operation of the Company for the year of 2010 and triggered the crisis of investors' confidence and corporate governance. I, on behalf of the Board, apologize to all the affected shareholders of the Company and other related parties.

As the Chairman of the Board and the founder of the Company, I am sincerely regretful and accept the unshirkable responsibility for the occurrence of the Event. The Board and I have put high emphasis on the Event, and dealt with the Event promptly in a decisive, immediate, active and practical manner as well as reported to competent regulators once we were aware of it. We have also communicated with the shareholders, creditors, customers, business partners, employees and other related parties of the Company in a timely manner so as to minimize the negative impact of the Event. Meanwhile, the Company has immediately formed an independent board committee


and an independent investigation team to conduct an independent investigation and take appropriate actions in due course with a view to protect the interests of the shareholders as a whole.

To reconstruct and enhance the management team and the internal control of the Company, the Board has appointed Mr. Li Jian as the acting chief executive officer, Mr. Lin Pu as the executive director and vice-president and Mr. Cheung Man Yu, Michael as vice president, and has engaged a number of experienced persons as the management of the Company to utilize in full their expertise in various professional areas and enhance the corporate governance of the Company. In addition to strengthening the management team, the Company also engaged an independent professional accountant who is responsible for reconstructing the internal control of the Company and optimizing the internal control system in order to prevent the re-occurrence of similar events.

The Company has appointed a qualified lawyer and accountant to audit the position of the Company's assets. The Company maintains a strong financial position. As at 31 December 2010, the Company had cash on hand and at banks totaling RMB2.8 billion, which is sufficient to settle all the major current liabilities of the Company and satisfy the needs for daily working capital. For plantation assets, as of the end of December 2010, the Company owned 231,000 hectares of forests.

Despite of the possible negative impact of the Event on the Company's operation, the strategy and confidence of the Company is firmly secured and would not be easily challenged. The PRC economy and consumer market continued to grow and contributed a strong demand for building materials, furniture and wood products, which has driven the sales volume and price of logs to rise. The Company will continue to capture the opportunities for the development of forestry industry in the PRC and consistently implement its corporate strategies. The Company is confident of the long-term development of the forestry industry in the PRC. In order to achieve the vertical consolidation of the Company's business mode, improve the profitability and diversify the business, we carried out the trading of timber logs in the northeastern China in the first quarter of 2011. In addition, we also sought for cooperation with the provincial and municipal governments to explore the business of timber logs processing by taking advantage of our past experience in cooperation with local governments of the PRC.

Looking forward, I, together with other members of the Board, will implement the recommendations stated in the investigation report in a practical manner and carry out new business plans. The management remains confident to the business strategies and future development of the China's forestry industry, and they are eager to explore business in a practical manner from the lesson learnt in the Event, so as to resume the investors' confidence and the image of the Company and to protect the shareholders' interests by enhancing the corporate governance and transparency.

Last but not least, I would like to take this chance to thank all shareholders, creditors and other related parties of the Company for their understanding and support, as well as to express my sincere gratitude for the valuable advices and support of the Board, Carlyle Group, a strategic shareholder of the Company, and other investors. The Company will implement the growth strategy as ever to proactively explore business, enhance corporate governance and enhance the return and value of shareholders in the long run.

Li Kwok Cheong
Chairman
Hong Kong, 29 April 2011

REVIVING UP FOR **GROWTH**

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the audit process in respect of the financial year ended 31 December 2010, irregularities (the "Irregularities") have been reported by KPMG, the auditors of the Group. To protect the interests of the Group and its shareholders as a whole, the Group applied for suspension of trading in the shares of the Company on 26 January 2011 and established an independent board committee comprising of a non-executive director and two independent non-executive directors of the Group to conduct an investigation into the Irregularities. The Company also suspended the staff members who may have been involved in the Irregularities from duty and enhanced its internal control to protect the Group's assets from improper transfer or misappropriation during this period of investigation.

On 14 February 2011, the Board removed Mr. Li Han Chun as chief executive officer of the Group and all of his powers and duties in the Group and its subsidiaries have ceased. At the same time, Mr. Li Jian was appointed as the acting chief executive officer. Upon investigation, the independent board committee found that Mr. Li Han Chun had embezzled funds of approximately RMB30 million, and that under his management, all the sales made by Kunming Ultra Big Forestry Resource Development Co., Ltd, the Group's key operating subsidiary, were conducted on cash basis, and the accounts had not been recorded in accordance with the applicable accounting standards.

Mr. Li Han Chun has been detained by the public security bureau of Guizhou Province since 24 February 2011, and other persons involved in this case have not reported to work and have been uncontactable since mid February 2011. In the absence of related records on and supporting documents to the cash transactions, it will be difficult for the Group to verify the information relating to each transaction entered into during the year. Accordingly, the Board could only rely on the bank statements they independently obtained from the respective banks, physical stock take conducted by professional parties, direct confirmations from respective local forest bureaus and legal opinions from PRC legal advisers regarding the legal title and ownership of the plantation assets of the Group to reconstruct the financial statements of the Group for the year ended 31 December 2010. However, due to the loss of books and records, the Board is of the view that it will be almost impossible and impractical to ascertain the true and correct financial position and profit or loss of the Group for the year ended 31 December 2010. Accordingly, the financial statements for the year ended 31 December 2010 disclosed by the Group represented the best possible estimates made based on the available information mentioned above.

On the basis of the foregoing, the Group recorded a turnover of RMB1,064,025,000 for the year ended 31 December 2010, representing an increase of 34.1% over the same period of 2009. During the year, sales volume and average selling price were not available due to the loss of some books and records. Loss attributable to equity shareholders of the Company was RMB2,711,820,000 as compared to a profit attributable to equity shareholders of RMB511,630,000 for the same period in 2009.

As at 31 December 2010, the Group owned forestry rights in respect of approximately 231,000 hectares of forests. Plantation forests owned by the Group are located in Sichuan Province, Yunnan Province and Guizhou Province of approximately 26,000 hectares, approximately 203,000 hectares and approximately 2,000 hectares respectively. All forests assets owned by the Group were valued at approximately RMB5,747 million as at 31 December 2010.

FINANCIAL REVIEW

The financial review is prepared based on the information available to the directors as of the date of this annual report.

REVENUE

For the year ended 31 December 2010, the Group's revenue was approximately RMB1,064 million (2009: RMB793.7 million), representing an increase of 34.1% as compared to previous year.

STAFF COST

Staff cost increased from RMB16.8 million for the year ended 31 December 2009 to RMB32.8 million for the year ended 31 December 2010 mainly due to 42,750,000 share option granted on 7 September 2010 under the share option scheme during the year of approximately RMB10.1 million and the increment in directors' salaries.

OPERATING EXPENSES FOR LOGGING ACTIVITIES

Operating expenses for logging activities consisting of cost of harvesting and forests maintenance fee associated with applying for logging permits. The cost of harvesting increased mainly due to the increase in sale for the year ended 31 December 2010.

CHANGES IN FAIR VALUE LESS COSTS TO SELL AND OTHER RECONCILING ITEMS

The "changes in fair value less costs to sell and other reconciling items" amount reported for the year ended 31 December 2010 represented the net adjustments required to account for the differences between the opening and closing carrying value of plantation assets for the year ended 31 December 2010 as estimated to the best of the information available to the Directors concerning the extent and nature of the Group's plantation assets and with the assistance of professional valuers.

The changes in fair value less costs to sell and other reconciling items mainly represented the decreased in fair value of plantation assets less cost to sell for the year ended 31 December 2010, which resulted from the insufficient information available for Chandler Fraser Keating Limited ("CFK"), the independent forestry valuer appointed by the Group, to undertake a valuation of the plantation assets of the Group as at 31 December 2010. CFK has had to make some subjective judgements as to the stocked area, species composition and yield of the forest based upon high level inspection of a limited number of forest areas and discussion with the staff of the Group.

WRITE DOWN OF INVENTORIES

Physical stock take and inspection has been performed by the Group together with the external professional parties in March 2011. The write down of inventories is technically determined with reference to the fair value less costs to sell as determined by external professional specialist. In general, the external professional specialist found that the logs goods were poorly organized often with different grade and size within the same row. In addition, the log stock piles were placed too close together which is difficult for the external professional specialist to take samples between the log piles in order to determine the stack factor. As a result, the stock volume stated in the valuation report prepared by external specialist only accounts for approximately 76% of the stock volume as recorded in Group's records.

LOSS FOR THE YEAR

Loss for the year was approximately RMB2,711.8 million for the year ended 31 December 2010, representing a decrease of approximately RMB3,223.4 million as compared to the profits of approximately RMB511.6 million in 2009.

DIVIDEND

The Board does not recommend a final dividend in respect of the year ended 31 December 2010 (2009: HK5.86 cents (equivalent to RMB5.16 cents) per share).

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2010, cash and bank balances was in a sum of RMB2,784.7 million, representing a net increase of RMB1,078.0 million as compared to the position as of 31 December 2009.

BORROWING

As at 31 December 2010, the Group had the Senior Notes bearing interest at 7.75% per annum, and repayable on 17 November 2015.

As at 31 December 2009, the Group had no bank borrowings.

PLEDGE OF ASSETS

The Senior Notes were secured by the shares of the Company's subsidiaries incorporated in Hong Kong and BVI, and were subject to the fulfilment of certain financial and non-financial covenants relating to the Group, as commonly found in lending arrangements in high yield senior notes. If the Group was to breach the covenants, the principal and, accrued and unpaid interest of the Senior Notes would become payable on demand. The Directors consider that none of the covenants had been breached as at 31 December 2010.

None of the Group's assets was pledged as at 31 December 2009.

FINANCIAL INSTRUMENTS

The Group did not hold any financial instruments for hedging purposes for the two years ended 31 December 2009 and 2010.

GEARING RATIO

The Group's gearing ratio is total debts over its total assets. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2010 was 0.31 (2009: 0.02).

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group had a total of 224 employees (31 December 2009: 420 employees). For the year ended 31 December 2010, the staff cost (including directors' remuneration in the form of salaries and other benefits) was approximately RMB32.8 million (2009: RMB16.8 million). Details are set out in note 7 to the financial statements of this annual report.

The remuneration of employees was based on their performance, skills knowledge, experiences and market trend. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment commensurate with the pay level in the industry. In addition to basic salaries, employees may be offered with discretionary bonus and cash awards based on individual performance. The Group has also adopted a share option scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PROSPECTS

2011 is the first year of the 12th Five-Year Plan of the PRC during which the Chinese Government will continue to increase the investments in infrastructure projects as appropriate. Meanwhile, the Chinese Government has committed to the construction of 10 million affordable homes by the end of 2011. Therefore, the Company anticipates that the steady growth of the PRC economy will boost the demand for timber logs, which is favorable to the sustainable growth of our businesses.

The Company aims to become a leading environmentally conscious forestry company with sustainable growth. In order to take better advantage of the rapid growth in demand for timber logs in the PRC market, the Company intends to create a vertical integration business model in phases through expansion into other fields of the forestry value chain, so as to reduce operational risk while enhancing profitability. The Company has commenced timber logs trading in Northeastern China in the first quarter of 2011. With the setting up of trading offices in Manzhouli, Inner Mongolia Autonomous Region and Yichun, Heilongjiang Province, the Company is able to expand its sales channels, sell the stock of timber logs and improve sales revenue. Benefiting from the shortage of timber logs and rising prices, the Company is hopeful that it could sell the existing stock of timber logs at a higher price to maximize revenues. Meanwhile, the Company will continue to seek long-term cooperations with downstream enterprises of the forestry value chain in order to achieve complementary advantages and enhance efficiency.

Nurturing sustainable and quality forestry resources is essential to the Company's development strategy. In 2011, the Company will adopt forestry cultivation policies focusing on conservation. Besides, the Company will focus on the development of quality forest resources in Guizhou Province. Qiandongnan People's Government of Guizhou Province demonstrated strong support to the Company for the acquisition of the domestic forestland.

In order to strengthen its internal management, the Company has made plans to set up a forestry resources acquisition committee under the Board, which is tasked with formulating strategies of forests acquisition and monitoring the progress and compliance of the acquisitions, in an effort to further improve corporate governance and management. Meanwhile, the Company will continue to introduce management and technical experts to reorganize its forestry assets, improve information system, strengthen our research and development of forest management as well as gradually expand our sales and marketing team, in order to create a strong foundation for future business growth.

2011 will be a year in which China Forestry recovers from the impact of last year's event. Notwithstanding that the Company's business and operations in the first quarter of this year have been affected by extra audit exercises which were part of the investigation commissioned by the independent board committee, the Board and the Company's new senior management remain highly focused on putting the Company back on track. China Forestry is confident that its operations will steadily return to normal, enabling it to stage a stable recovery in financial performance in 2011.

CREATE A BRIGHT **FUTURE TOGETHER**

EXECUTIVE DIRECTORS

Li Kwok Cheong (李國昌), aged 53, is our executive Director and chairman. He was appointed as a Director on 21 December 2007. Mr. Li is mainly responsible for the Group's strategic development and oversees the Group's operations and investments. Mr. Li graduated from 中華全國律師函授中心 (Chinese Nation Attorney Teaches by Correspondence the Center), an organisation assisting self-learners in legal higher education examination in China, in June 1987. Mr. Li is an entrepreneur and had invested in tobacco trading from 1993 to 2001, before co-founding the Group in 2001. Mr. Li is the council member of the China Council for the Promotion of Environment and Forestry ("CCPEF"). Mr. Li has over 16 years of experience in management, of which over 8 years of experience in the forestry industry. Mr. Li is the sole director of Kingfly Capital Limited, which is a substantial shareholder of the Company.

Li Han Chun (李寒春), aged 36, is our executive Director and was appointed as a Director on 21 December 2007. Mr. Li entered the forest management industry in February 2004 when he joined our Group and is currently a council member of the CCPEF. He had also served as the marketing manager of Tianjin district at China P&G Company Limited and was involved in the marketing of a variety of products of P&G including personal and household care products. Prior to joining us, Mr. Li had about six years' management experience including industries relating to energy management system solutions and personal and household care products. He was the cofounder and managing director of Creative Energy Solutions Holdings Limited when it was listed in January 2002 on the Growth Enterprise Market of Hong Kong Stock Exchange, where Mr. Li worked from April 1999 to April 2003. Mr. Li Han Chun obtained a masters degree from the architecture faculty of Tsinghua University in July 2006. In July 1997, he graduated from Tsinghua University after completing his undergraduate studies in engineering of heat supply, ventilation and air conditioning.

Lin Pu (林普), aged 51, is our executive Director and was appointed as a Director on 1 January 2011. Mr. Lin has more than 20 years of experience in the financial services sector. He graduated with a bachelor's degree in Banking Computer Management and Application in 1987 from Zhejiang Engineering College, currently known as Zhejiang University of Science & Technology, a bachelor's degree in Economics in 1998 from Hangzhou University, currently known as Zhejiang University, and a master's degree in Business Administration in 2003 from Macau University of Science and Technology. Prior to joining the Company, he was the vice president of Zhejiang Crea-union Information Technology Co., Ltd. and the general manager of Beijing Crea-union Longsheng Information Technology Co., Ltd. from 2003 to 2008.

NON-EXECUTIVE DIRECTORS

Xiao Feng (肖楓), aged 38, is our non-executive Director. He was appointed as a Director on 8 January 2008 when the Carlyle Funds invested in us and nominated him to our Board. Mr. Xiao is a managing director of the Carlyle Group focused on growth capital investment in China. Prior to joining Carlyle in April 2005, Mr. Xiao was a Vice General Manager at China International Capital Corporation, a well-known investment bank in China, from January 2000 to April 2005. Mr. Xiao received his Master of Business Administration from the China Europe International Business School in April 2000. He obtained a Lawyer's Qualification Certificate in China issued by Ministry of Justice of PRC in June 1997. He also obtained a bachelor degree in electronics and computer science technology and a Bachelor of Arts in English from Tsinghua University in July 1995. Mr. Xiao was appointed as a director of Xtep International Holdings Limited (which shares are listed on the Hong Kong Stock Exchange (Stock code: 1368)) in September 2007 and became its non-executive director in January 2008.

Li Zhi Tong (李志同), aged 68, is our non-executive Director. He was appointed as a Director on 3 April 2008. From 19 April 2005 to 18 April 2008, he was our consultant and advised us on forestry matters. Mr. Li acquired his forestry experience by being the vice chairman of the CCPEF since 2001 and having served as a major general at the PRC forestry security bureau (森林公安局) previously. Mr. Li was also the first grade forestry police superintendent in China.

Meng Fan Zhi (孟繁志), aged 46, is our non-executive Director. He was appointed as a Director on 1 January 2011. Mr. Meng has more than 10 years of experience in the forestry industry. Apart from his appointment with the Company, he has been acting as the deputy chairman of The China Council for the Promotion of Environment and Forestry since 2010. Prior to his appointment as the deputy chairman, Mr. Meng had been acting as the secretary-general since 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Tak-jun (黃德尊), aged 48, is our independent non-executive Director. He was appointed as a Director on 3 April 2008. Mr. Wong is the Chair Professor of Accountancy and the Dean of the Faculty of Business Administration of the Chinese University of Hong Kong (CUHK). Before joining CUHK, he has taught at the University of Maryland in the United States. Mr. Wong has published numerous research articles in a number of finance and accounting journals such as Journal of Finance, Review of Financial Studies, The Accounting Review and Journal of Accounting and Economics and is experienced in reviewing and analysing audited financial statements of public companies. He received his Ph.D. and Master of Business Administration from University of California in December 1990 and June 1986 respectively.

Wang Wei Ying (王偉英), aged 67, is our independent non-executive Director. He was appointed and resigned as a Director on 11 August 2008 and 1 January 2011 respectively. Mr. Wang has been a part-time Ph.D. student tutor of Economic Management School of Northeast Forestry University (東北林業大學經濟管理學院) since June 1998 and a professor and the vice-chancellor of Heilongjiang Forestry Science Academy (黑龍江省林業科學院院長) from October 1993 until June 2004. Since 1999, he has been a council member of Chinese Society of Forestry (中國林學會理事), a non-government organisation comprising forestry professionals in China. In August 2003, he was awarded first-grade (advancement category) scientific technology award for his research in integrated technology applicable to timber-wood-based sustainable forestry development.

Liu Can (劉璨), aged 44, is our independent non-executive Director. He was appointed as a Director on 11 August 2008. He obtained a master degree in agriculture from Nanjing Forestry University in November 1992 and a PhD degree in management from China Agriculture University in July 2000. From September 2002, Mr. Liu has been an honorary professor and post-graduate student tutor of Economic Management School of China Agriculture University (中國農業大學經濟管理學院), and from November 2006, a visiting professor of Qingdao Agriculture University (青島農業大學). He has been conducting research for the Economic Development Research Centre of the China Forestry Scientific Research Academy established by SFA (中國林業科學院經濟發展研究中心). Mr. Liu has written books relating to forestry.

Zhu De Miao (朱德淼), aged 46, is our independent non-executive Director. He was appointed as a Director on 1 January 2011. Mr. Zhu has more than 20 years of experience in the financial services sector. He graduated with a bachelor's degree in Economics in 1982 from Heibei College of Geology, currently known as Shijiazhuang University of Economics, a master's degree in Economics in 1985 from Research Institute for Fiscal Science, Ministry of Finance, P.R. China and a master's degree in Business Administration in 1993 from the University of Chicago. Apart from his appointment with the Company, Mr. Zhu has been acting as an independent non-executive director and chairman of the audit committee of Aluminum Corporation of China Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 2600), the Shanghai Stock Exchange (Stock Code: 601600) and the New York Stock Exchange (Stock Code: ACH), since 2008. Mr. Zhu has also been acting as an independent director of WSP Holdings Limited, a company listed on the New York Stock Exchange (Stock Code: WH), since 2007. In addition, Mr. Zhu has been appointed as the managing director of Oaktree Capital (Hong Kong) Limited since 2005. From 1999 to 2005, Mr. Zhu served as the managing director and the chairman of operating committee of the Greater China Region of JP Morgan Chase & Co..

SENIOR MANAGEMENT

Li Jian (李健), aged 57, is the acting chief executive officer of our group and responsible for overseeing the entire business operations of the Group. He joined our Group on 14 February 2011. Mr. Li graduated from the Faculty of Management of Hangzhou Institute of Commerce (杭州商學院). He passed the first national judicial examination of PRC (中國國家首次司法資格考試) in 1986 and was a lawyer in Hangzhou Second Law Firm (now known as Zhejiang Xingyun Law Firm) from 1984 to 1990. Mr. Li was an executive director and has been a consultant of Beijing Capital Asset Management Company Limited (北京首創資產管理有限公司) since 2002. He was also the consultant for the board of directors of Dongfang Shidai Investment Company Limited (東方時代投資有限公司). From 1998 to 2001, Mr. Li was the executive director and president of China Hi-Tech Group Co., Ltd. (中國高科集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600730). From 1994 to 1997, Mr. Li was the director and general manager of Shenzhen Jinlong Plush Manufacturing Company Limited (深圳金龍長毛絨製造有限公司) and Qingdao Hengye Plush Manufacturing Company Limited (青島恒業長毛絨製造有限公司). From 1990 to 1993, Mr. Li was the director and vice president of Shenzhen Campaign Industrial Co. Ltd. (深圳原野實業股份有限公司, now known as 深圳世紀星源股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 5). From 1983 to 1990, Mr. Li was a lecturer at Zhejiang Radio and Television University (浙江廣播電視大學).

Cheung Man Yu, Michael (張文宇), aged 36, is the vice president of our Group and responsible for the financial management, investor relations and financial reporting of the Company and assisting the chief executive officer in formulating the Group's strategy. He joined our Group in February 2011. Mr. Cheung has over 13 years of experience in financial management and financial services. Prior to joining the Group, he was employed at the audit department of Ernst & Young, an international accounting firm, between 2000 and 2004, he has been a vice president (or director) at the respective investment banking division of BNP Paribas Capital (Asia Pacific) Limited, UBS AG and J.P. Morgan since 2004.

Tong Wai Kit, Raymond (唐偉傑), aged 38, is the joint chief financial officer and company secretary of our Group. Mr. Tong is primarily responsible for overseeing our Group's financial reporting procedures, internal controls and compliance with the Hong Kong Listing Rules and other relevant laws and regulations. He joined our Group in April 2008, and has over 13 years working experience in the related fields of finance, audit and accounting. Prior to joining our Group, Mr. Tong, from July 2006 to December 2007, worked as a chief financial officer, company secretary and qualified accountant for ZZNode Technologies Company Limited, which is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC and which shares are listed on the Hong Kong Stock Exchange (stock code: 2371). From March 2004 to June 2006, Mr. Tong worked as a joint company secretary for China Minsheng Banking Corporation

Limited, and from April 2003 to December 2003, he worked as a chief financial officer and company secretary for Nanjing Dahe Outdoor Media Company Limited (currently known as Dahe Media Co., Ltd.), which is an outdoor advertising service provider in the PRC and which shares are listed on the Growth Enterprise Market of Hong Kong Stock Exchange (stock code: 8243). Mr. Tong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated in June 1995 from Hong Kong Polytechnic University with a bachelor's degree in accountancy.

Xu Jia Zeng (徐嘉曾), aged 34, is the financial controller of our Group for its business operations in the PRC and responsible for financial management and financial reporting of the PRC subsidiaries of the Group. He joined our Group in April 2011. Mr. Xu is a member of the Chinese Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He is also a Certified Internal Auditor. He has over 10 years of experience in accounting and financial consulting. Prior to joining the Group, Mr. Xu was a senior manager at Resources Global Professionals and was responsible for financial due diligence and consulting from 2009 to 2011. From 2007 to 2009, he was a manager of Deloitte Consulting (Shanghai) Co., Ltd., Beijing Branch. From 1999 to 2007, he was employed at the audit department and corporate consulting departments of Ernst & Young, an international accounting firm.

DIRECTORS' REPORT

The Directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are forestry management and sales of timber logs in the PRC.

Details of the Company's principal subsidiaries as at 31 December 2010 are set out in note 19 to the financial statements of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated statement of comprehensive income on page 37 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: HK5.86 cents per share).

PROPERTY, PLANT AND EQUIPMENT AND PLANTATION ASSETS

Details of the property, plant and equipment and plantation assets of the Group during the year are set out in notes 16 and 18 to financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 29 to the financial statements of this annual report.

SENIOR NOTES

In November 2010, the Company issued senior notes in the aggregate principal amount of US$300 million maturing on 17 November 2015 with an interest rate of 7.75% per annum for forest acquisition and general corporate purposes. Details of the senior notes of the Company are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2010 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 41 of this annual report.

As at 31 December 2010, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association was RMB1,576,210,000.

Under the laws of Cayman Islands, the share premium account subject to the provisions of the Articles is distributable to the Shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their distributable profits as reflected in the PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 87 and 88 of this annual report.

LOANS AND BORROWINGS

Particulars of loans and borrowings of the Company and the Group as at 31 December 2010 are set out in note 27 to the financial statements of this annual report.

CHARITABLE DONATIONS

During the year, the Group donated charitable contributions totalling approximately RMB1,500,000 (2009: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

Given that the financial statements have been prepared based on the incomplete books and records available to the Company, the Directors are unable to disclose the information in respect of the Group's major customers and suppliers during the year.

DIRECTORS

The Directors during the year and up to the date of this annual report are as follows:

EXECUTIVE DIRECTORS

Mr. Li Kwok Cheong *(Chairman)*
Mr. Li Han Chun
Mr. Lin Pu (appointed on 1 January 2011)

NON-EXECUTIVE DIRECTORS

Mr. Xiao Feng
Mr. Li Zhi Tong
Mr. Meng Fan Zhi (appointed on 1 January 2011)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Tak-jun
Mr. Liu Can
Mr. Zhu De Miao (appointed on 1 January 2011)
Mr. Wang Wei Ying (resigned on 1 January 2011)

Biographical details of the above Directors are set out in the section headed "Directors and Senior Management" on pages 13 to 17 of this annual report.

In accordance with articles 84(1) and 84(2) of the Company's articles of association, Mr. Lin Pu, Mr. Meng Fan Zhi and Mr. Zhu De Miao will retire from the Board by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

In accordance with article 83(5) of the Company's articles of association, it is proposed that Mr. Li Han Chun be removed from the Board as an executive director at the forthcoming AGM.

Each of the Directors in the Board has entered into a service contract with the Company for a term of 3 years until terminated by giving 3 month's notice in writing thereof by either party to the other.

No Directors proposed for re-election at the forthcoming AGM has an expired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date. Each of our non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date.

None of the Directors proposed for re-election at the forthcoming AGM has entered into any service agreement with the Company which is not determinable within one year without payment of compensation (other than the statutory compensation).

REMUNERATION OF THE DIRECTORS

The remuneration of the Directors is determined with reference to the Directors' duties, responsibilities, performance and the results of the Group.

Details of the remuneration of the Directors are set out in note 10 to the financial statements of this annual report.

REMUNERATION POLICY

The remuneration policy of the Group is based on performance, experience, competence and market comparables. Remuneration package generally comprises salary, housing allowance, contribution to pension schemes and discretionary bonuses relating to the performance of the Group.

When compared to other employees of the Group, the remuneration package of the Directors and senior management puts a heavier weighting on their contributions to the performance of the Group. This is achieved by way of share option scheme. The remuneration policy of the Directors and senior management is overseen by the remuneration committee of the Company.

Details of the scheme are set out under the section headed "Share Options" in this report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

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

As at 31 December 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(A) LONG POSITIONS IN SHARES

Long Positions in our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Li Kwok Cheong(1)	Interest of a controlled corporation	1,534,950,000	50.16%
	Security interest	75,000,023	2.45%
Li Han Chun(2)	Interest of a controlled corporation	194,175,000	6.34%

Notes:

(1) Kingfly Capital Limited is wholly-owned and controlled by Mr. Li Kwok Cheong and Mr. Li Kwok Cheong is therefore deemed to be interested in the Shares held by Kingfly Capital Limited. Kingfly Capital Limited has a security interest over 75,000,023 Shares, representing approximately 2.45% of the interest in the Company held by Top Wisdom Overseas Holdings Limited.

(2) Top Wisdom Overseas Holdings Limited is wholly-owned and controlled by Mr. Li Han Chun and Mr. Li Han Chun is therefore deemed to be interested in the Shares held by Top Wisdom Overseas Holdings Limited.

Save as disclosed above, as at 31 December 2010, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

The Company has adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 5 November 2009.

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. Unless approved by the Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any grantee if the acceptance of those options would result in the total number of shares issued and to be issued to that grantee on exercise of his options during any 12 month period exceeding 1% of the total shares of the Company (or its subsidiary) then in issue.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board of Directors of the Company, which must not be more than 10 years from the date of the grant.

On 7 September 2010, the Company granted 42,750,000 options to a director, senior management and key employees. No option was exercised, cancelled or lapsed during the year ended 31 December 2010. For further details on the financial aspects of the share options, please refer to note 28 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Options" above, at no time during the year were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

RETIREMENT BENEFITS SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the "Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of approximately 20% of the standard wages determined by the relevant authorities during the year ended 31 December 2010. Contributions to the Schemes vest immediately.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF scheme vest immediately. Save for the above schemes, the Group has no other material obligation for the payment of retirement benefits beyond the contributions described above.

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

So far as is known to any Directors or chief executives of the Company, as at 31 December 2010, Shareholders (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

LONG POSITIONS:

Name	Notes	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Kingfly Capital Limited	1	Beneficial Owner Security Interest	1,534,950,000 75,000,023	50.16% 2.45%
Mr. Li Kwok Cheong	1	Interest in controlled corporation Security Interest	1,534,950,000 75,000,023	50.16% 2.45%
CAGP	2	Beneficial owner	322,650,000	10.54%
CAGP General Partner, L.P.	2	Interest in controlled corporation	335,475,000	10.96%
CAGP Ltd.	2	Interest in controlled corporation	335,475,000	10.96%
TC Group Cayman Investment Holdings, L.P.	2	Interest in controlled corporation	335,475,000	10.96%
TCG Holdings Cayman II, L.P	2	Interest in controlled corporation	335,475,000	10.96%
Carlyle Offshore Partners II, Limited	2	Interest in controlled corporation	335,475,000	10.96%
Top Wisdom Overseas Holdings Limited	3	Beneficial owner	194,175,000	6.34%
Mr. Li Han Chun	3	Interest in controlled corporation	194,175,000	6.34%
Partners Group AG	4	Investment Manager	165,150,000	5.40%
Partners Group Holding AG	5	Interest in controlled company	165,150,000	5.40%

Notes:

1. Kingfly Capital Limited is wholly-owned and controlled by Mr. Li Kwok Cheong and Mr. Li Kwok Cheong is therefore deemed to be interested in the Shares held by Kingfly Capital Limited.

   Kingfly Capital Limited, as the chargee in respect of a charge made by Top Wisdom Overseas Holdings Limited as the chargor over 75,000,023 Shares representing approximately 2.45% of the issued share capital of the Company, has a security interest over such Shares.

2. CAGP General Partner, L.P. is the general partner of CAGP and CAGP Coinvestment which collectively are interested in 10.96% of the total issued share capital of the Company. CAGP General Partner, L.P. itself acts by its general partner, CAGP Ltd., which in turn is 100% owned, controlled and managed by TC Group Cayman Investment Holdings, L.P., the general partner of which is, TCG Holdings Cayman, L.P.. Carlyle Offshore Partners II, Limited is the general partner of TCG Holdings Cayman II, L.P.. Each of CAGP General Partner, L.P., CAGP Ltd., TC Group Cayman Investment Holdings, L.P., TCG Holdings Cayman II, L.P. and Carlyle Offshore Partners II is deemed to be interested in the Shares held by CAGP and CAGP Coinvestment.

3. Top Wisdom Overseas Holdings Limited is wholly-owned and controlled by Mr. Li Han Chun and Mr. Li Han Chun is therefore deemed to be interested in the Shares held by Top Wisdom Overseas Holdings Limited.

   Top Wisdom Overseas Holdings Limited, as the chargor, has created a charge in favour of Kingfly Capital Limited, as the chargee, over 75,000,023 Shares representing approximately 2.45% of the issued share capital of the Company.

4. Partners Group Management (Scotland) Limited, the general partner of Partners Group Access, which is interested in 4.68% of the total issued share capital of the Company, is accustomed to act in accordance with the direction of Partners Group AG. In addition, Partners Group AG has discretion to make decisions regarding the exercise of the voting rights attributable to the 0.72% interest in the Company held by International Fund on account of IFM-Invest: 2 PrivateEquity. Partners Group AG is therefore, deemed to be interested in 5.40% of the total issued share capital of the Company.

5. Partners Group AG is a wholly-owned subsidiary of Partners Group Holding AG, which is, therefore, deemed to be interested in 5.40% of the total issued share capital of the Company.

Save as disclosed above, as at 31 December 2010, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Company during the year.

CONTRACTS OF SIGNIFICANCE

No contracts of significance in relation to the business of the Group, to which the Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder of the Company or any of its subsidiaries subsisted at the end of year or at any time during the year.

No contracts of significance between the Company or any of its subsidiaries and a Controlling Shareholder of the Company or any of its subsidiaries subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

So far as the Directors were aware, none of the Directors or their associates had any interest in a business that competes or may compete with the business of the Group.

AUDIT COMMITTEE

The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their written terms of reference are in line with the Corporate Governance Code provisions. The audit committee consists of three members, namely, Mr. Wong Tak-jun, Mr. Wang Wei Ying (resigned on 1 January 2011), Mr. Liu Can and Mr. Zhu De Miao (appointed on 1 January 2011), all of whom are independent non-executive Directors. Mr. Wong Tak-jun is the chairman of the audit committee.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the financial statements of the Group for the year ended 31 December 2010.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 23 September 2009 in compliance with the Corporate Governance Code.

The remuneration committee currently comprises one non-executive Director, Mr. Xiao Feng and two independent non-executive Directors, Mr. Wong Tak-jun (Chairman), Mr. Wang Wei Ying (resigned on 1 January 2011) and Mr. Zhu De Miao (appointed on 1 January 2011).

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Cayman Islands Companies Law where the Company is incorporated.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the year ended 31 December 2010.

CODE OF CORPORATE GOVERNANCE PRACTICE

The Company has adopted the Corporate Governance Code as its own code of corporate governance. Save as otherwise disclosed in the Corporate Governance Report, the Company has complied with the code provisions of the Corporate Governance Code throughout the period from the Listing Date to 31 December 2010.

For details of the Corporate Governance Report, please refer to pages 27 to 32 of this annual report.

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

RELATED PARTY TRANSACTIONS

Material related party transactions during the year are disclosed in note 30 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing to 31 December 2010.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company was suspended since 26 January 2011 and shall remain suspended until further notice. Please refer to the announcements of the Company dated 26 January 2011, 31 January 2011, 18 February 2011, 2 March 2011, 3 March 2011 and 29 April 2011, respectively, for further details in relation to the suspension.

On behalf of the Board
Li Kwok Cheong
Chairman

29 April 2011

The Company has adopted the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Company has complied with such code provisions during the year ended 31 December 2010, save as the deviations as set out below.

As disclosed in the announcement of the Company dated 31 January 2011, in the course of the audit process in respect of the financial statements for the year ended 31 December 2010, irregularities have been identified by KPMG. As disclosed in the announcement of the Company dated 29 April 2011, it has been revealed that a group of former senior management members led by Mr. Li Han Chun (the "Former Management Team") has conducted the Group's business operations in manners not authorized by the Board, including the failure to procure insurance, conducting sales in cash without proper records and purchase of wood logs for trading purposes. Such activities have been concealed from the Board. The Board in reviewing the business of the Group and in its decision making process was presented with falsified documents and information based on such documents by the Former Management Team. Upon discovery of these issues, members of the Former Management Team have been dismissed by the Company or have tendered their resignations from their respective positions. Please refer to the announcement of the Company dated 29 April 2011 for further details. As a result, the following code provisions in the Corporate Governance Code have been deviated:

Code provision	Deviation
A.1.3	There have been two instances where notice of less than 14 days were given to the Directors in respect of regular meetings of the Board.
A.6.2	The Former Management Team did not supply the Board and its committees with adequate, complete and reliable information in a timely manner to enable the Board to make informed decisions or further necessary enquiries.
C.1.1	The Former Management Team of the Group did not provide sufficient and correct explanation and information to the Board necessary to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.
C.3.3	Due to the concealment of the Group's actual financial information by the Former Management Team, the audit committee was not able to discharge the duties under its terms of reference effectively.
D.1.1	Due to the concealment of the Group's business practices by the Former Management Team, the Board was not able to give the necessary directions to the Former Management Team as to their powers of management, including with respect to the circumstances where the management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

The Board believes that the abovementioned deviations were primarily due to the management practices of the Former Management Team. The Board and the Company is in the process of reviewing its internal control procedures and have already adopted the following measures in response to the issues raised by KPMG:

(a) strengthened control over cash and bank balances by setting transfer or payment thresholds over which written approval is required from certain designated signatories and reviewing the cash and bank balance of the Group on a weekly basis;

(b) engaged in negotiation with a PRC insurer to procure insurance policies to cover all forests of the Group for the year ending 31 December 2011 and procured insurance coverage for the wood logs acquired by the Former Management Team to protect the Group's interest in such inventory;

(c) establishment of a forest management team to monitor the logging activities of the Group to ensure the Group's compliance with the relevant logging permits and PRC laws and regulations. The Group is also in the process of applying for logging permits in respect of an additional 300,000 m^3 of wood;

(d) obtained confirmations from relevant forest bureaus in respect of all forests owned by the Group and engaged PRC Legal Advisers to conduct a large scale due diligence exercise in respect of the forest ownership rights held by the Group; and

(e) the Board has instructed the current management team that all cash transaction practices should stop; all future sales should be conducted by way of formal written contracts, settled by way of bank transfers or cheques and reflected in management accounts of the Group.

Please refer to the announcement of the Company dated 29 April 2011 for further details on rectification measures adopted by the Group. The Group is determined to improve its internal control and will continue to review and monitor its internal control procedures.

If appropriate, the Group may establish and implement additional measures to prevent the issues from recurring in future.

BOARD OF DIRECTORS

The overall management of the Group's business operations is vested in the Board.

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development, monitoring and controlling the business operations and financial performance, internal control and risk management systems, and monitoring the performance of the senior management. The Directors have to make decisions objectively in the interests of the Company and its shareholders as a whole. During the year ended 31 December 2010, the Board conducted a review of the internal control system of the Group based on the information provided by the members of the Former Management Team and, prior to the identification and notification of the irregularities by KPMG, the Board was satisfied with the effectiveness of the internal control system of the Company. Since the identification and notification of the irregularities by KPMG, the Board has continued to review and improve its internal control procedures. Please refer to the section above for further details.

The day-to-day management, administration and business operations of the Group are delegated to the chief executive officer and the senior management of the Group. The delegated functions and work tasks are periodically reviewed. During the year ended 31 December 2010, the Board comprised seven Directors, consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report. To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

As disclosed in the announcement of the Company dated 3 January 2011, with effect from 1 January 2011, Mr. Lin Pu has been appointed as an additional executive Director; Mr. Meng Fan Zhi has been appointed as an additional non-executive Director and Mr. Zhu De Miao has been appointed as an independent non-executive Director in place of Mr. Wang Wei Ying, who resigned on the same date. Biographical information of Mr. Lin Pu, Mr. Meng Fan Zhi and Mr. Zhu De Miao are also set out in the section headed "Directors and Senior Management" of this annual report.

Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, other than Mr. Li Han Chun (who is not contactable), all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the year ended 31 December 2010.

Chairman and Chief Executive Officer

The roles of chairman and the chief executive officer are segregated. Mr. Li Kwok Cheong is the chairman of the Company. Mr. Li Han Chun had been the chief executive officer of the Company until he was removed by the Board from such position on 14 February 2011. Mr. Li Jian has been appointed as the acting chief executive officer in place of Mr. Li Han Chun with effect from 14 February 2011. Please refer to the announcement of the Company dated 18 February 2011 for further details. The chairman is responsible in leading the Board in forming the Group's strategies and policies and for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business operations of the Group. The chief executive officer is directly in charge of the daily business operations of the Group and is accountable to the Board for the financial and operational performance of the Group.

Independent Non-Executive Directors

Independent non-executive Directors play a significant role in the Board by bringing their independent views and judgment at the Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions, in particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Mr. Wong Tak-jun, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Meetings

The Board meets to discuss the overall strategy as well as the business operations and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications. The number of the board meetings held and the attendance of each Director at these meetings for the year ended 31 December 2010 have been set out as follows:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
No. of meetings held	4	2	2	NIL
No. of meetings attended				
Executive Directors				
Mr. Li Kwok Cheong (chairman)	4	N/A	N/A	N/A
Mr. Li Han Chun	4	N/A	N/A	NIL
Mr. Lin Pu (appointed on 1 January 2011)	N/A	N/A	N/A	N/A
Non-Executive Director				
Mr. Xiao Feng	4	N/A	2	N/A
Mr. Li Zhi Tong	3	N/A	N/A	N/A
Mr. Meng Fan Zhi (appointed on 1 January 2011)	N/A	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Wong Tak-jun	4	2	2	N/A
Mr. Wang Wei Ying (resigned on 1 January 2011)	3	2	2	NIL
Mr. Zhu De Miao (appointed on 1 January 2011)	N/A	N/A	N/A	N/A
Mr. Liu Can	4	2	N/A	NIL

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings.

Appointments, Re-Election and Removal Of Directors

Each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company. The articles of association of the Company also provide that at each annual general meeting, one third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The articles of association of the Company further provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Committees

The Board has established (i) audit committee, (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference. The terms of reference of the board committees which explain their respective role and the authority delegated to them by the Board are available upon request. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

Audit Committee

The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their written terms of reference are in line with the Corporate Governance Code provisions. The audit committee consists of three members, namely, Mr. Wong Tak-jun, Mr. Wang Wei Ying (resigned on 1 January 2011), Mr. Zhu De Miao (appointed on 1 January 2011) and Mr. Liu Can, all of whom are independent non-executive Directors. Mr. Wong Tak-jun is the chairman of the audit committee.

The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2010, including the accounting principles and practice adopted by the Group. As disclosed in the annual results announcement of the Company dated 29 April 2011, due to the limited financial information available as stated in note 2 to the financial statements of this annual report and that most of the former key accounting personnel have left without notice, the Directors were unable to obtain sufficient documentary information to ensure the genuineness and completeness of books and records. As a result, the Board of Directors is unable to represent as to the completeness, existence and accuracy of identification and the disclosures of the financial statements for the year ended 31 December 2010.

The primary duties of the Audit Committee are mainly to review the material investment, capital operation and material financial system of our Company; to review the accounting policy, financial position and financial reporting procedures of the Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal control of the Company.

In accordance with its written terms of reference, the audit committee has held two meetings during the year ended 31 December 2010 to discuss the auditing, internal control and financial reporting matters of the Company, including review of the annual results of the Group for the year ended 31 December 2009, interim results of the Group for the six months ended 30 June 2010.

Remuneration Committee

The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review performance based remuneration, and ensure none of the Directors determine their own remuneration. Their written terms of reference are in line with the Corporate Governance Code provisions. The remuneration committee consists of three members, namely, Mr. Wong Tak-jun, Mr. Wang Wei Ying (resigned on 1 January 2011), Mr. Zhu De Miao (appointed on 1 January 2011) and Mr. Xiao Feng. Mr. Wong Tak-jun is the chairman of the remuneration committee.

The remuneration committee has held two meetings during the year ended 31 December 2010.

Nomination Committee

The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. Their written terms of reference are in line with the Corporate Governance Code provisions. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to, his/her education background, professional experience, experience with the relevant industry and past directorships. The nomination committee consists of three members, namely, Mr. Li Han Chun, Mr. Wang Wei Ying (resigned on 1 January 2011), Mr. Zhu De Miao (appointed on 1 January 2011) and Mr. Liu Can. Mr. Li Han Chun was the chairman of the nomination committee in 2010.

No meeting of the nomination committee has been held during the year ended 31 December 2010.

EXTERNAL AUDITORS

The responsibilities of KPMG, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditor's Report" in this annual report.

External Auditors' Remuneration

The Company engages KPMG as its external auditors. Details of the fees paid/payable to KPMG during the year are as follows:

Statutory audit services	HK$11,000,000
Non-audit services	HK$3,461,907

INDEPENDENT AUDITOR'S REPORT

KPMG

To the shareholders of
China Forestry Holdings Co., Ltd.
(Incorporated in Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of China Forestry Holdings Co., Ltd. ("the Company") and its subsidiaries ("the Group") set out on pages 36 to 86, which comprise the consolidated and company statements of financial position as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

Authenticity of accounting records and documentation

During the course of our audit for the year ended 31 December 2010, evidence obtained by us indicated irregularities with respect to the maintenance of the Company's and the Group's accounting records and the transactions recorded therein. As disclosed in note 2 to the financial statements, our report of these concerns led to the establishment of an independent board committee of the Company ("Independent Committee"), whose findings cast serious doubts over the authenticity and reliability of records and documents of the Company and of the Group and over the reliability of the information and explanations provided to us by members of management as well as by parties external to the Group.

Given these circumstances, which are more fully described in note 2, there were no practicable audit procedures that we could perform to satisfy ourselves that the information and documents presented to us for the purpose of our audit are complete and accurate in all material respects, nor to quantify the extent of adjustments that might be necessary in respect of the Group's financial information.

To the shareholders of
China Forestry Holdings Co., Ltd.
(Incorporated in Cayman Islands with limited liability)

Incomplete books and records

Included in the consolidated financial statements of the Group is the financial information of one of its subsidiaries, Kunming Ultra Big Forestry Resource Development Co., Ltd. ("Kunming Ultra Big"). As disclosed in note 2 to the financial statements, Kunming Ultra Big is the Company's key operating subsidiary and accounts for all of the Group's reported turnover and inventory and substantially all of the Group's reported loss before taxation and plantation assets. As disclosed in note 2, certain members of the accounting and finance team and resources management department have not reported for work since mid-February 2011 and current management has confirmed to us that the Company has been unable to contact them. As note 2 to the financial statements also discloses, the Company's directors were unable to locate all books and records of Kunming Ultra Big and were unable to unreservedly confirm its financial position, results of operations and cash flow. We were therefore unable to carry out satisfactory audit procedures to obtain reasonable assurance regarding the completeness, accuracy, existence, valuation, ownership, classification and disclosures of the transactions undertaken by Kunming Ultra Big. Accordingly, we were unable to ascertain whether the financial information of Kunming Ultra Big included in the Group's consolidated financial statements has been properly prepared in accordance with IFRSs.

Non-compliance with IFRSs and omission of disclosures

As explained in note 2 to the financial statements, as the consolidated financial statements of the Group have been prepared by the directors based on incomplete books and records and the Board believes it is almost impossible and not practical to ascertain the correct amounts. Consequently, the directors of the Company were unable to represent that the financial statements comply with IFRSs, or that the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited have been complied with. Given these circumstances, which are more fully described in note 2, there were no practicable audit procedures that we could perform to quantify the extent of adjustments that might be necessary in respect of the Group's financial statements.

Going concern assessment

As explained in note 2 to the financial statements, in making their assessment of the Company's ability to continue as a going concern, the directors have considered the Group's ability to pay off all existing loans and payables and carry on its operations for the foreseeable future. However, the directors have been unable to predict the action that may be taken by the senior note holders as a result of any potential breach of financial or non-financial covenants caused by the matters disclosed in note 2, or the consequential impact to the Group. In addition, as a result of the matters disclosed in note 2, the directors are unable to represent that all present and contingent liabilities or assets of the Group have been completely identified, or that all assets recorded in the statement of financial position are recoverable or fairly stated. Given these circumstances, which are more fully described in note 2 and in the paragraphs above, there were no practicable audit procedures that we could perform to form an opinion on whether management's assessment of its ability to continue as a going concern considers all events and conditions which may be relevant.

To the shareholders of
China Forestry Holdings Co., Ltd.
(Incorporated in Cayman Islands with limited liability)

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss for the year then ended in accordance with International Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 April 2011

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010

(Expressed in Renminbi)

	Note	**2010 RMB'000**	2009 RMB'000 (As reported)
Turnover	4	**1,064,025**	793,693
Other operating income	5(a)	**645**	2,591
Amortisation of insurance premium		**(6,009)**	(19,901)
Amortisation of lease prepayments		**–**	(7,722)
Consultancy fees		**(17,378)**	(7,861)
Depreciation		**(2,616)**	(213)
Write down of inventories	21	**(120,930)**	–
Foreign exchange loss		**(14,811)**	(3,168)
Operating expenses for logging activities		**(361,652)**	(185,802)
Other operating expenses	5(b)	**(56,523)**	(34,616)
Rental expenses of properties		**(3,699)**	(2,005)
Staff costs	7	**(32,796)**	(16,778)
Travelling expenses		**(4,791)**	(2,040)
Changes in fair value of plantation assets less costs to sell and other reconciling items	18	**(2,020,000)**	681,339
Cost of inventory sold	21	**–**	(607,995)
Other suspense account	8	**(1,116,400)**	–
(Loss)/profit from operations		**(2,692,935)**	589,522
Finance income		**6,873**	533
Finance expenses		**(25,758)**	(78,425)
Net finance costs	6	**(18,885)**	(77,892)
(Loss)/profit before taxation		**(2,711,820)**	511,630
Income tax	9	**–**	–
(Loss)/profit for the year		**(2,711,820)**	511,630
Attributable to:			
Equity shareholders of the Company		**(2,711,820)**	511,630
(Loss)/earnings per share (RMB)			
Basic and diluted	14	**(0.89)**	0.22

The notes on pages 42 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000 (As reported)
(Loss)/profit for the year		**(2,711,820)**	511,630
Other comprehensive income for the year	13		
Available-for-sale securities:			
net movement in the fair value reserve		**–**	–
Exchange differences on translation of financial statements of overseas subsidiaries		**(18,632)**	(1,060)
Total comprehensive income for the year		**(2,730,452)**	510,570
Attributable to:			
Equity shareholders of the Company		**(2,730,452)**	510,570

The notes on 42 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2010

(Expressed in Renminbi)

	Note	**2010** **RMB'000**	2009 RMB'000 (As reported)
Non-current assets			
Property, plant and equipment	16	**19,493**	22,122
Lease prepayments	17	**342,163**	218,104
Plantation assets	18	**5,747,000**	7,767,000
Prepayment for forest acquisition	20	**383,484**	–
Total non-current assets		**6,492,140**	8,007,226
Current assets			
Inventories	21	**413,870**	–
Trade and other receivables	22	**50,638**	55,322
Other financial assets	23	**9,734**	–
Cash and cash equivalents	25	**2,784,673**	1,706,636
Total current assets		**3,258,915**	1,761,958
Current liabilities			
Other payables	26	**(1,085,998)**	(174,725)
Total current liabilities		**(1,085,998)**	(174,725)
Net current assets		**2,172,917**	1,587,233
Total assets less current liabilities		**8,665,057**	9,594,459

at 31 December 2010
(Expressed in Renminbi)

	Note	**2010 RMB'000**	2009 RMB'000 (As reported)
Non-current liabilities			
Interest-bearing borrowings	27	**(1,948,862)**	–
Total non-current liabilities		**(1,948,862)**	–
NET ASSETS		**6,716,195**	9,594,459
CAPITAL AND RESERVES	29		
Share capital		**20,797**	20,797
Reserves		**6,695,398**	9,573,662
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**6,716,195**	9,594,459

Approved and authorised for issue by the board of directors on 29 April 2011

Li Kwok Cheong
Director

Lin Pu
Director

The notes on pages 42 to 86 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

at 31 December 2010

(Expressed in Renminbi)

	Note	**2010 RMB'000**	2009 RMB'000 (As reported)
Non-current assets			
Investments in subsidiaries	19	**–**	–
Total non-current assets		**–**	–
Current assets			
Trade and other receivables	22	**1,467**	1,695
Amount due from a subsidiary	24	**2,916,178**	728,116
Other financial assets	23	**9,734**	–
Cash and cash equivalents	25	**664,131**	1,195,887
Total current assets		**3,591,510**	1,925,698
Current liabilities			
Amounts due to subsidiaries	24	**(1,028)**	(36,468)
Other payables	26	**(44,613)**	(25,878)
Total current liabilities		**(45,641)**	(62,346)
Net current assets		**3,545,869**	1,863,352
Non-current liabilities			
Interest-bearing borrowings	27	**(1,948,862)**	–
Total non-current liabilities		**(1,948,862)**	–
NET ASSETS		**1,597,007**	1,863,352
CAPITAL AND RESERVES	29		
Share capital		**20,797**	20,797
Reserves		**1,576,210**	1,842,555
TOTAL EQUITY		**1,597,007**	1,863,352

Approved and authorised for issue by the board of directors on 29 April 2011

Li Kwok Cheong
Director

Lin Pu
Director

The notes on pages 42 to 86 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

(Expressed in Renminbi)

	Note	Share capital RMB'000 (note 29(c))	Share premium RMB'000 (note 29(e))	Statutory surplus reserve RMB'000 (note 29(e))	Capital reserve RMB'000 (note 29(e))	Exchange reserve RMB'000 (note 29(e))	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2009 (As reported)		232	247,886	170,865	88,557	(273)	6,928,083	7,435,350
Changes in equity for 2009: (As reported)								
Shares issued	29(c)	24	280,121	–	–	–	–	280,145
Capitalisation issue	29(c)	15,038	(15,038)	–	–	–	–	–
Issuance of shares for placing and public offering	29(c)	5,503	1,472,301	–	–	–	–	1,477,804
Share issuance cost	29(c)	–	(109,410)	–	–	–	–	(109,410)
Total comprehensive income for the year		–	–	–	–	(1,060)	511,630	510,570
Balance at 31 December 2009 (As reported)		20,797	1,875,860	170,865	88,557	(1,333)	7,439,713	9,594,459
Balance at 1 January 2010		**20,797**	**1,875,860**	**170,865**	**88,557**	**(1,333)**	**7,439,713**	**9,594,459**
Changes in equity for 2010:								
Dividends approved in respect of the previous year	29(b)	**–**	**(157,911)**	**–**	**–**	**–**	**–**	**(157,911)**
Equity-settled share-based transactions	28	**–**	**–**	**–**	**10,099**	**–**	**–**	**10,099**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(18,632)**	**(2,711,820)**	**(2,730,452)**
Balance at 31 December 2010		**20,797**	**1,717,949**	**170,865**	**98,656**	**(19,965)**	**4,727,893**	**6,716,195**

The notes on pages 42 to 86 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010

(Expressed in Renminbi unless otherwise indicated)

1 REPORTING ENTITY

China Forestry Holdings Co., Ltd. (the "Company") was incorporated in the Cayman Islands on 21 December 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong ("Stock Exchange") on 3 December 2009 and have been suspended from trading since 26 January 2011.

The Group is primarily involved in the management of forests and sales of timber logs in the People's Republic of China ("PRC").

2 BASIS OF PRESENTATION

The consolidated financial statements as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (collectively referred to as the "Group").

During the audit process in respect of the financial year ended 31 December 2010, irregularities have been reported by KPMG, the auditors of the Company (the "Irregularities"). Accordingly, in the interest of the Company, its shareholders and senior notes holders as a whole, on 26 January 2011 and 27 January 2011 the Company has applied for suspension of trading in the shares on the Stock Exchange and the senior notes on the Singapore Exchange Securities Trading Limited, respectively.

An independent board committee ("Independent Committee") composed of a non-executive director who is independent to the Irregularities and two independent non-executive directors of the Company has been established to conduct an investigation into the Irregularities according to an action plan approved by the Board.

The Audit Committee has also conducted an independent forensic investigation into the Irregularities.

On 14 February 2011, the Board removed Mr. Li Han Chun ("Mr. Li") as the chief executive officer of the Company and all of his powers and duties in the Company and its subsidiaries have been ceased. On 24 February 2011, Mr. Li has been detained by the public security bureau of Guizhou Province for the alleged embezzlement of funds of approximately RMB30 million.

2 BASIS OF PRESENTATION *(CONTINUED)*

The Board understood that under Mr Li's supervision, the joint chief financial officer, Ms. Wu Xiao Fen ("Ms. Wu"), who was responsible for the overall accounting and financial management of the PRC subsidiaries of Group, the chief resource officer, Mr. Zhang Hong Yu ("Mr. Zhang"), who oversaw the overall forestry management and the operation of the resources management department and certain members of the accounting and finance team and resources management department maintained more then one set of accounting records for the Company's subsidiary, Kunming Ultra Big Forestry Resource Development Co., Ltd. ("Kunming Ultra Big"). Kunming Ultra Big is the Group's key operating subsidiary and account for all of the Group's reported turnover and inventory and substantially all of the Group's loss before tax and plantation assets as reported in the Group's financial statements.

With the admissions made by Mr. Li, the Board understood that all sales were conducted on cash basis and most of the sales proceeds have not been deposited into the bank accounts of Kunming Ultra Big during 2010. As advised by Mr. Li, he and his team used the proceeds from cash sales to purchase forest assets from individual farmers and to pay out the operating expenses related to harvesting activities and since the second half of 2010, he and his team have started to purchase wood logs in Northeast China. All these transactions have been recorded by daily cash books ("Cash Records") of Kunming Ultra Big by Mr. Li and his team who concealed the Cash Records from the Board and the auditors. Meanwhile, various falsified documents and records, including management accounts, harvesting records, bank statements and bank pay in slips were presented by Mr. Li and his team to the auditors for examination during the process of audit with a view to creating an illusion that all the sales proceeds have been properly received and deposited into the bank accounts of Kunming Ultra Big and that cash had been properly paid out for the acquisition of forest assets from the bank accounts of Kunming Ultra Big.

Ms. Wu, Mr. Zhang and certain members of the accounting and finance team and resources management department have not reported for work since mid-February 2011 and they are now not contactable.

Following Mr. Li's admissions to the Board, the Independent Committee was able to locate the Cash Records but has not been able to locate the related supporting documents of Kunming Ultra Big for year ended 31 December 2010 or the Cash Records or related supporting documents relating to before 2010.

Given the questionable reliability of the Cash Records we found and the absence of Mr. Li, Ms. Wu and Mr. Zhang to explain and validate the true state of affairs of 31 December 2010 for Kunming Ultra Big, it will be extremely difficult and time consuming to ascertain the true and correct financial position and profit or loss of 31 December 2010 for Kunming Ultra Big. In the Board's opinion, any reconstruction of the correct accounting records will also be almost impossible as it will be necessary to verify the information with external and independent sources and such sources may not be available or may be unreliable due to their connections with Mr. Li, Ms. Wu and Mr. Zhang or those responsible for the falsified accounts and financial information within and outside of the Group.

2 BASIS OF PRESENTATION *(CONTINUED)*

Given the significant doubts as to the accuracy and reliability of any records or documents found by the Independent Committee during the investigation process for the subsidiaries established in the PRC, the Independent Committee, in their review, has had to rely on bank statements they independently obtained from the respective banks, physical stock take conducted by professional parties and direct confirmations from respective local forest bureaus and legal opinion from PRC legal advisers regarding the legal titles and ownership of the plantation assets of the Group. It has not been possible to separately and independently verify every one of the transactions that have transpired for the year ended 31 December 2010. From the limited review that the Independent Committee has completed in tracking the cash flows of the PRC subsidiaries, the Independent Committee has identified that there were numerous payments that could not be properly or clearly explained. The above revelation, in view of the Board, casts serious doubts over the reliability and accuracy of the accounting records presented in past years, and of the financial statements of the Company and of the Group for the current and prior years. As a consequence, the Board has reason to believe that the financial statements in previous years might not reflect the true and fair view of the company's financial performance and position. Due to loss of some books and records, and lack of cooperation from Mr. Li, Ms. Wu and Mr. Zhang the Board believes that it is almost impossible, and not practical to verify the financial information as reported in the consolidated financial statements of the Group for the current and past years.

As of the date of this report, the management has used its best effort, to the extent commercially practicable, to reconstruct the accounting records of the Group for the year ended 31 December 2010, applying their best estimates and judgement based on the information of the Group that are available to the management. However, given the loss of some books and records and serious doubts over the reliability of the Group's accounting and other records, the Board believes that, as at the date of the report, it is almost impossible, and not practical, to ascertain the correct revenue and profit or loss (and the resultant assets and liabilities) for the current year for inclusion in the consolidated financial statements of the group. Also, due to loss of some books and records, the Board believes that it is almost impossible, and not practical, to verify the financial information as reported in the consolidated financial statements of the Group for past years. Accordingly, the comparative financial information disclosed in the financial statements only represents such information as reported in the published 2009 financial statements and therefore may not be comparable with the figures for the current year.

Due to limited books of account and records available to the Directors of the Company, the following disclosures have not been made in the consolidated financial statements:

– Details of the Group's credit policy and aging of debtors and creditors as required by the Rules Governing the listing of securities on the Stock Exchange ("Listing Rules");

– Details of lease terms of land as required by the Hong Kong Companies Ordinance;

2 BASIS OF PRESENTATION *(CONTINUED)*

– Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and International Financial Reporting Standards ("IFRSs");

– Details of allowance account for credit losses, financial risk management and fair value disclosure as required by IFRS 7, *Financial Instruments – Disclosures;*

– Entity-wide disclosures as required by IFRS 8, *Operating Segments;*

– Gross carrying amount and the accumulated depreciation at the beginning and end of the year and reconciliation of the carrying amount of property, plant and equipment as required by International Accounting Standards ("IAS") 16, *Property, plant and equipment*; and

– Reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current year and estimates of the physical quantities of biological asset at the year end and output of agricultural produce during the year as required by IAS 41, *Agriculture*.

Due to insufficient information available to the Directors of the Company, the consolidated financial statements do not contain a consolidated cash flow statement as required by IAS 7, *Statement of Cash Flows.*

Any adjustments arising from the matters described above would have a consequential significant effect on the net loss of the Group for the year ended 31 December 2010 and net assets of the Group as at 31 December 2010.

Due to the limited financial information available and most of the former key accounting personnel of the Group have left without notice, the Directors were unable to obtain sufficient documentary information to satisfy themselves regarding the genuineness and completeness of books and records and the treatment of various balances as included in the consolidated financial statements for the year ended 31 December 2010 and have formed the opinion as follows:

2 BASIS OF PRESENTATION *(CONTINUED)*

As the consolidated financial statements have been prepared based on the incomplete books and records available to the Company, the Directors of the Company are unable to represent that all transactions entered into by the Group for the year ended 31 December 2010 have been properly reflected in the consolidated financial statements. In this connection, the Directors of the Company are also unable to represent as to the completeness, existence and accuracy of identification and the disclosures of turnover in note 4, other operating income and expenses in note 5, staff costs in note 7, income tax in note 9, directors' remuneration in note 10, individuals with highest emoluments in note 11, (loss)/profit attributable to equity shareholders of the Company in note 12, (loss)/earnings per share in note 14, property, plant and equipment in note 16, lease prepayments in note 17, plantation assets in note 18, prepayment for forest acquisition in note 20, inventories in note 21, trade and other receivables in note 22, amounts due from/(to) subsidiaries in note 24, cash and cash equivalents in note 25, other payables in note 26, capital, reserves and dividends in note 29 and related party disclosure in note 30.

As per assessment of the Board of Directors, based on the investigations carried out by the Independent Committee and Audit Committee and the information available at this stage, all identified, required adjustments have been put through in the financial statements for the year ended 31 December 2010. Since the investigations are on-going, any further adjustments and disclosures, if required, would be made in the financial statements of the Company as and when the outcome of the above uncertainties is known and the consequential adjustments and disclosures are identified, and would have a consequential effect on the net loss of the Group for the year ended 31 December 2010 and net assets of the Group as at 31 December 2010.

The Company issued US$300 million 7.75% Senior Notes on 22 November 2010. The senior notes were subject to the fulfilment of certain financial and non-financial covenants. Given the matters as mentioned above, we are not able to predict any action that may be taken by the senior notes holders and the consequential impact to the Group. These conditions indicate the existence of uncertainties which may cast doubt on the Group's ability to continue as a going concern. However, the Board believes that the Group has sufficient financial resources to pay off all existing loans and payables, expenses and carry on its operation for the foreseeable future, as such, the financial statements have been prepared on a going concern basis.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

Except for the matters referred to in note 2, including the omission of a consolidated cash flow statement and disclosures as required under IFRSs, Hong Kong Companies Ordinance and Listing Rules, these financial statements have been prepared in accordance with IFRS, which collective term includes all applicable individual IFRSs, IASs and Interpretations issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance and Listing Rules. A summary of the significant accounting policies adopted by the Group is set out below.

IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's and the Company's operations. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

(b) Basis of preparation of the financial statements

The consolidated financial statements are presented in Renminbi ("RMB"), has been rounded to the nearest thousand. The functional currency of the entities within the Group is Hong Kong dollars ("HKD") except for the subsidiaries established in the PRC where the functional currency is RMB. As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group.

The consolidated financial statements have been prepared on the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– financial instruments classified as available-for-sale financial assets (see note 3(e));

– derivative financial instruments (see note 3(g)); and

– plantation assets (see note 3(j)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 33.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss (see note 3(n)).

(ii) Transactions eliminated on consolidation

Intragroup balances and transactions and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(ii) Foreign operations

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale. Investments in available-for-sale financial asset are initially stated at fair value which is their transaction price unless fair value can be more reliably estimated. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(n)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(d)(i)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities and debt securities.

(f) Share capital – ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(g) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and any changes in fair value are recognised immediately in profit or loss.

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and accumulated impairment losses (see note 3(n)). Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income/loss in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Property, plant and equipment *(continued)*

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The cost of the day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of an asset, less its estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

–	Leasehold improvement	Over the lease terms
–	Office equipment	3 – 5 years
–	Furniture and fittings	5 years
–	Motor vehicles	10 years
–	Software	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Lease prepayments

Lease prepayments represent payments made to acquire land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 3(n)). Amortisation is charged to profit or loss on a straight-line basis over the respective lease terms of the rights.

(j) Plantation assets

Plantation assets comprise of forest crop in the PRC.

Plantation assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss. Costs to sell include all costs that would be necessary to sell the assets. Standing timber is transferred to inventory at its fair value less estimated costs to sell at the date of harvest.

The fair value of plantation assets is determined independently by professional valuers.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 3(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Inventories

Inventories represent timber harvested from plantation assets and timber purchased for trading purpose.

Inventories are measured at the lower of cost and net realisable value. The cost of harvested timber transferred from plantation assets is its fair value less costs to sell at the date of harvest, determined in accordance with the accounting policy for plantation assets (see note 3(j)). The cost of other inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Impairment

(i) Impairment of investment in debt and equity securities and receivables

Investment in debt and equity securities and receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(n)(ii).
- For trade and other current receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where the financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Impairment *(continued)*

(i) Impairment of investment in debt and equity securities and receivables *(continued)*

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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

(ii) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories are reviewed at the end of each reporting period to identify whether there is any indication or impairment.

If any such indication exists, the asset's recoverable amount is estimated.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Impairment *(continued)*

(ii) Impairment of non-financial assets *(continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss (other than a loss recognised against goodwill) is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the assets' carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) Employee benefits

(i) Short term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliability.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the period during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Equity-settled share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(r) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Revenue

(i) Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of timber logs, usually transfer occurs when the product is received by customer and the customer generally has no right of return for the product.

(ii) Government grants

An unconditional government grant related to the plantation assets is recognised in profit or loss as other income when the grant becomes receivable.

(t) Operating lease charges

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(u) Finance income and finance expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, fair value losses on financial assets at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognised in profit or loss using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(v) Income tax

Income tax expenses comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(v) Income tax *(continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member or such an individual, or is an entity under the control, joint control or significant influence or such individuals;

3 SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Related parties *(continued)*

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4 TURNOVER

Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts, derived from the Cash Records of Kunming Ultra Big for the year ended 31 December 2010 found by the Independent Committee.

As disclosed in note 2 to the financial statements, various falsified documents and sales records were presented by Mr. Li and his team. Mr. Li was removed by the Board in February 2011. Ms. Wu, Mr. Zhang and certain key members of accounting and finance function and resource management department have not reported for work since-mid-February 2011 and they are not contactable. The Board of Directors is therefore unable to locate all of the relevant sales records for the current and prior years.

Given the loss of some books and records, reliability of Cash Records found and the absence of key personnel, the Board believes that it may be almost impossible, and not practical, to ascertain the completeness, existence and accuracy of the turnover of the Group.

5 OTHER OPERATING INCOME AND EXPENSES

(a) Other operating income:

	2010	2009
	RMB'000	RMB'000
		(As reported)
Government grants	**484**	656
Other trading income	**137**	1,934
Others	**24**	1
	645	2,591

(b) Other operating expenses:

The other operating expenses included auditor's remuneration of RMB9,574,000 for the year ended 31 December 2010 (2009: RMB985,000 for the audit of the 2009 financial statements subsequent to the listing of the Company in late 2009 and the fees for the initial public offering are included in the listing expenses).

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the other operating income and expenses as of the date of approval of these financial statements.

6 NET FINANCE COSTS

	2010 RMB'000	2009 RMB'000 (As reported)
Interest income from available-for-sale securities	**1,884**	–
Interest income earned from deposits with bank	**1,861**	533
Gain on disposal of available-for-sale financial assets	**3,128**	–
Interest paid or payable for forest acquisition	**–**	(78,425)
Interest on borrowings wholly repayable within five years (see note 27)	**(20,289)**	–
Change in fair value of derivatives financial instruments	**(5,418)**	–
Others	**(51)**	–
	(18,885)	(77,892)

7 STAFF COSTS

	2010 RMB'000	2009 RMB'000 (As reported)
Salaries, wages and other benefits	**22,002**	15,434
Contributions to defined contribution retirement schemes	**695**	1,344
Equity-settled share-based payment expenses (see note 28)	**10,099**	–
	32,796	16,778

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes ("the Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of approximately 20% (2009: 20%) of the standard wages determined by the relevant authorities during the year ended 31 December 2010. Contributions to the Schemes vest immediately.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme ") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF scheme vest immediately.

7 STAFF COSTS *(CONTINUED)*

Save for the above schemes, the Group has no other material obligation for the payment of retirement benefits beyond the contributions described above.

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the staff costs as of the date of approval of these financial statements.

8 OTHER SUSPENSE ACCOUNT

As disclosed in note 2, certain documents and information could not be located and there were numerous payments that could not be clearly and properly explained. Due to the limitation of information, the comparative information has not been restated, and has been adopted as the assumed opening balance as at 1 January 2010. The "other suspense account" represents the unknown transactions and the net adjustment required to account for the differences between the opening and closing equity attributable to the shareholders for the year ended 31 December 2010 as estimated by the directors to the best of the information available to them as of the date of approval of these financial statements, as disclosed in note 2, other than movement in the plantation assets as disclosed in note 18.

9 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2009 and 2010.

(c) Under the PRC tax law, the Enterprise Income Tax rate of the PRC was 25% for the year ended 31 December 2010 (2009: 25%). Pursuant to section 27 of the PRC tax law and section 86 of the Implementation Regulations of the PRC tax law, the entity's income derived from forestry business is exempt from income tax. The following is reconciliation between tax expense and accounting (loss)/profit at applicable tax rate:

9 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(CONTINUED)*

	2010 **RMB'000**	2009 RMB'000 (As reported)
(Loss)/profit before taxation	**(2,711,820)**	511,630
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the countries concerned	**(671,764)**	133,778
Tax effect of tax concession	**(985)**	(134,269)
Tax effect of non-deductible expenses	**672,749**	–
Tax effect of unused tax losses not recognised	**–**	491
Actual tax expense	**–**	–

Under the PRC tax law, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 are subject to the above-mentioned withholding tax. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future. The aggregate amounts of temporary differences associated with undistributed retained earnings and the related deferred tax liabilities which were not recognised because distribution of earnings was not expected in the foreseeable future amount to RMB4,938,378,000 and RMB246,919,000 respectively as at 31 December 2010 (2009: RMB7,559,680,000 and RMB377,984,000 as reported respectively).

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the accuracy of the undistributed retained earnings of the PRC subsidiaries and hence the related unrecognised deferred tax liabilities as of the date of approval of these financial statements.

10 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

2010

	Directors' Fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments RMB'000 (note)	Total RMB'000
Chairman							
Li Kwok Cheong	1,200	3,064	–	–	4,264	–	4,264
Executive director							
Li Han Chun	1,200	2,220	30	29	3,479	1,890	5,369
Sub-total	2,400	5,284	30	29	7,743	1,890	9,633
Non-executive directors							
Li Zhi Tong	300	–	–	–	300	–	300
Liu Can	300	–	–	–	300	–	300
Wang Wei Ying (resigned on 1 January 2011)	300	–	–	–	300	–	300
Wong Tak-jun	348	–	–	–	348	–	348
Xiao Feng	300	–	–	–	300	–	300
Sub-total	1,548	–	–	–	1,548	–	1,548
Total	3,948	5,284	30	29	9,291	1,890	11,181

10 DIRECTORS' REMUNERATION *(CONTINUED)*

2009

	Directors' Fees RMB'000 (As reported)	Basic salaries, allowances and benefits in kind RMB'000 (As reported)	Discretionary bonuses RMB'000 (As reported)	Retirement scheme contributions RMB'000 (As reported)	Sub-Total RMB'000 (As reported)	Share-based payments RMB'000 (As reported)	Total RMB'000 (As reported)
Chairman							
Li Kwok Cheong	100	–	–	–	100	–	100
Executive director							
Li Han Chun	100	871	2,000	26	2,997	–	2,997
Sub-total	200	871	2,000	26	3,097	–	3,097
Non-executive directors							
Li Zhi Tong	25	–	–	–	25	–	25
Liu Can	25	–	–	–	25	–	25
Liu Hai Yan (retired on 31 March 2009)	–	–	–	–	–	–	–
Wang Wei Ying	25	–	–	–	25	–	25
Wong Tak-jun	29	–	–	–	29	–	29
Xiao Feng	25	–	–	–	25	–	25
Sub-total	129	–	–	–	129	–	129
Total	329	871	2,000	26	3,226	–	3,226

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the Directors' remuneration as of the date of approval of these financial statements.

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2009 and 2010. No director waived or agreed to waive any emoluments during the years ended 31 December 2009 and 2010.

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(p)(iii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share options" in the directors' report and note 28.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two directors for the year ended 31 December 2010 (2009:1), whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other three individuals are as follows:

	2010 **RMB'000**	2009 RMB'000 (As reported)
Basic salaries, allowances and benefits in kind	**2,482**	1,572
Discretionary bonuses	**200**	772
Share-based payments	**2,835**	–
Retirement scheme contributions	**66**	73
	5,583	2,417

The emoluments of three individuals (2009: four) with highest emoluments are within the following bands:

	Number of individuals	
	2010	2009 (As reported)
HK$Nil to HK$1,000,000	**–**	3
HK$1,000,000 to HK$1,500,000	**–**	1
HK$2,000,000 to HK$2,500,000	**3**	–

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the disclosures on individuals with highest emoluments as of the date of approval of these financial statements.

12 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of RMB59,569,000 (2009: RMB22,809,000 (as reported)) which has been dealt with in the financial statements of the Company.

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the (loss)/profit attributable to equity shareholders of the Company which has been dealt with in the financial statements of the Company as of the date of approval of these financial statements.

13 OTHER COMPREHENSIVE INCOME

(a) The components of other comprehensive income do not have any significant tax effect for each of the years ended 31 December 2009 and 2010.

(b) Reclassification adjustments relating to components of other comprehensive income:

	2010 **RMB'000**	2009 RMB'000 (As reported)
Available-for-sale securities:		
Changes in fair value recognised during the period	**3,128**	–
Reclassification adjustments for gains on disposal transferred to profit or loss	**(3,128)**	–
Net movement in the fair value reserve during the period recognised in other comprehensive income	**–**	–

14 (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the year ended 31 December 2010 is based on the loss attributable to equity shareholders of the Company of RMB2,711,820,000 (2009: Profit of RMB511,630,000 (as reported)) and weighted average number of 3,060,452,000 (2009: 2,308,694,000) ordinary shares in issue during the year. As disclosed in note 2, the (loss)/profit attributable to equity shareholders of the Company may not be accurate, no representation is made by the Board as to the accuracy of the (loss)/earnings per share of the Company as of the date of approval of these financial statements.

The weighted average number of ordinary shares is calculated as follows:

	2010 **'000**	2009 '000
Issued ordinary shares as at 1 January (note 29(c))	**3,060,452**	–
Issuance of shares on Reorganisation (note 29(c)(i))	**–**	35,565
Effect of capitalisation issue (note 29(c)(ii))	**–**	2,214,435
Issuance of shares for placing and public offering (note 29(c)(iii))	**–**	58,694
Weighted average number of ordinary shares at 31 December	**3,060,452**	2,308,694

The diluted loss per share for the year ended 31 December 2010 is the same as the basic loss per share as the potential ordinary shares are anti-dilutive.

There were no potential dilutive ordinary shares during the year ended 31 December 2009.

15 SEGMENT REPORTING

The directors consider that the Group operates in a single business and geographical segment as the revenue and profit are derived entirely from the sales of timber logs in the PRC. Accordingly, no segmental analysis has been presented.

16 PROPERTY, PLANT AND EQUIPMENT

	The Group	
	2010	2009
	RMB'000	RMB'000
		(As reported)
Net Book Value	**19,493**	22,122

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the property, plant and equipment of the Group as of the date of approval of these financial statements.

17 LEASE PREPAYMENTS

	The Group	
	2010	2009
	RMB'000	RMB'000
		(As reported)
Net Book Value	**342,163**	218,104

Lease prepayments represent land use rights granted to the Group in respect of its plantation assets in the PRC. Usage of the land is regulated by the Implementation Regulations of PRC Forest Law issued by the State Council of the PRC. Owing to the loss of books and records, the directors are unable to determine the value of the land use rights for the newly acquired forests. During this period, the directors have applied their best estimate based on historical data to separate the value of land use rights from the total consideration of forests. Given the loss of books and records, unreliability of records found and the absence of key personnel, the Group is in the process of rebuilding the forestry data, but has not obtained adequate information regarding the lease period of the forest at the date of this report. The Board therefore believes that it may be almost impossible, and not practical, to ascertain the amortisation for the year, or the completeness and accuracy of the lease prepayments of the Group.

18 PLANTATION ASSETS

	The Group	
	2010	2009
	RMB'000	RMB'000
		(As reported)
At 1 January	**7,767,000**	7,693,000
Additions (notes (i))	**–**	656
Harvested timber transferred to inventories (note 21)	**–**	(607,995)
Changes in fair value less costs to sell and other reconciling items (note (ii))	**(2,020,000)**	681,339
At 31 December	**5,747,000**	7,767,000

Notes:

(i) The additions represent the value of tree saplings planted during the previous year.

(ii) As disclosed in note 2, certain documents and information could not be located and there were numerous payments that could not be clearly and properly explained. Also, due to the limitation of information, the comparative information has not been restated and has been used as the assumed opening balance as at 1 January 2010. The "changes in fair value less costs to sell and other reconciling items" amount reported for 2010 represents the net adjustments required to account for the differences between the opening and closing carrying value of plantation assets for the year ended 31 December 2010 as estimated by the directors to the best of the information available to them concerning the extent and nature of the Group's plantation assets and with the assistance of professional valuers, as disclosed in note (iii) below.

Given the loss of some books and records (including acquisition and harvesting records and detailed information of its forests), unreliability of forestry records found and the absence of key personnel, the Board believes that it may be almost impossible, and not practical, to ascertain the completeness and accuracy of the plantation assets of the Group as of the date of approval of these financial statements.

18 PLANTATION ASSETS *(CONTINUED)*

Notes: *(Continued)*

(iii) The Group's plantation assets in the PRC were independently valued by Chandler Fraser Keating Limited ("CFK") based on the information available to the directors pertaining to the extent and nature of the Group's plantation assets (see note (ii) above). CFK is a privately owned specialist forest consulting firm headquartered in New Zealand. In view of the non-availability of market value for trees in the PRC, CFK has applied the net present value approach whereby projected future net cash flows, based on its assessment of current timber log prices, were discounted at the rates of 13% (2009: 9% to 13%) for plantation assets for the year and then applied to pre-tax cash flows to provide a current market value of the plantation assets.

The principal valuation methodology and assumptions adopted are as follows:

– The forests are managed on a sustainable basis and sufficient logging quota will be granted by government authorities;

– The cash flows are those arising from the current rotation of trees only. No account was taken of revenues or costs from re-establishment following harvest, or of land not yet planted;

– The cash flows do not take into account income taxation and finance costs;

– The cash flows have been prepared in real terms and have not therefore included inflationary effects;

– The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forest is not taken into account;

– Due to the absence of the Company information, costs have been derived from external sources and discussion with the staff of the Group. The costs are current average costs. No allowance has been made for cost improvements in future operations; and

– Due to the absence of the Company information, prices have been derived from independent market information and not prices actually received by the Company.

Given the loss of some books and records, the information available is not sufficient for CFK to undertake a valuation of the plantation assets, and CFK has had to make some subjective judgements as to the stocked area, species composition and yield of the forest based upon high level inspection of a limited number of forest areas and discussions with the staff of the Group. The actual area, composition and yield of the forests is likely to be different from those subjective judgements. As a result, the actual value may be higher or lower than the value derived by CFK.

19 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	RMB'000	RMB'000
		(As reported)
Unlisted investment, at cost	**–**	–

The following list contains the particulars of subsidiaries which principally affected the results, assets and liabilities of the Group.

Name of company	Place of incorporation and operation	Paid-up capital	Attributable equity interest indirectly held by the Company	Principal activities
Kunming Ultra Big*	The PRC	USD 90,000,000 (2009: USD 50,000,000)	100%	Forest management and sale of timber log
Chengdu Yishang Forestry Resource Development Co., Ltd*	The PRC	USD 49,000,000 (2009: USD 29,000,000)	100%	Forest management and sale of timber log
Guizhou Wosen Forestry Development Company Limited* ("Guizhou Wosen")	The PRC	USD 90,000,000 (2009:Nil)	100%	Forest management, cultivate and process of timber log and sale of timber log
Manzhouli Yishang Forest Resource Development Co., Ltd*	The PRC	RMB 30,000,000 (2009:Nil)	100%	Forest management, cultivate and process of timber log and sale of timber log

* These entities established in the PRC are wholly foreign owned enterprises.

20 PREPAYMENT FOR FOREST ACQUISITION

On 16 March 2010, the Group entered into a memorandum of intent to acquire forests in Guizhou Province, the PRC and RMB383,484,000 was paid by the Group as a deposit.

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the prepayment for forest acquisition as of the date of approval of these financial statements.

21 INVENTORIES

(a) Inventories in the statement of financial position comprise:

	The Group	
	2010	2009
	RMB'000	RMB'000
		(As reported)
Timber logs harvested from plantation assets	**–**	–
Timber logs purchased	**534,800**	–
Less: Write down of inventories (note (i))	**(120,930)**	–
	413,870	–

(b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
		(As reported)
Cost of inventory sold (note (ii))	**–**	(607,995)
Write down of inventories (note (i) and note (ii))	**(120,930)**	–

Notes:

(i) Physical stock take and inspection has been performed by the Group together with the external professional specialist in March 2011. The write down of inventories is determined with reference to the fair value less costs to sell as determined by the external professional specialist. In general, the external professional specialist found the logs goods were poorly organised often with different grades and size within the same row. In addition, the log stockpiles were placed so close together that it was impossible in some case to walk between the stockpiles to take sample to determine the stack factors. The stock volume as stated in the valuation report was around 76% of the stock volume per the Group's books and records.

(ii) As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, accuracy and ownership of the inventories. Furthermore, the directors were not able to separately verify the cost of inventory sold during the period and therefore this amount is not identified in the profit and loss account in 2010 separately from other suspense account and changes in fair value of plantation assets less costs to sell and other reconciling items as disclosed in notes 8 and 18 to these financial statements.

22 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(As reported)		(As reported)
Trade debtors	**1,863**	–	**–**	–
Other receivables	**2,685**	1,801	**1,165**	1,440
Prepaid insurance premium	**–**	17,480	**–**	–
Other prepayments and deposits	**46,090**	36,041	**302**	255
	50,638	55,322	**1,467**	1,695

Given the loss of some books and records, unreliability of records found and the absence of key personnel, the Board believes that it may be almost impossible, and not practical, to ascertain the completeness, existence and accuracy of the trade and other receivables of the Group, or to perform a detailed analysis of the Group's trade and other receivable aging, credit policy and impairment assessment.

23 OTHER FINANCIAL ASSETS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(As reported)		(As reported)
Derivative financial instruments	**9,734**	–	**9,734**	–

The Group's derivative financial instruments represented the embedded derivative in the secured senior notes, whose fair values are determined by valuation technique taking into account market interest rate and the credit standing of the Group (note 27).

24 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand.

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the valuation of the amounts due from subsidiaries as of the date of approval of these financial statements.

25 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(As reported)		(As reported)
Cash at bank and in hand	**2,784,673**	1,706,636	**664,131**	1,195,887

The Group's cash and cash equivalents include cash at bank and in hand of RMB1,120,821,000 were held in the PRC as at 31 December 2010 (2009: RMB376,124,000 (as reported)). The conversion of RMB denominated balance into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government. All the bank balances included in the statement of financial position as at 31 December 2010 have been confirmed by the relevant banks.

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the cash and cash equivalents, and underlying cash transactions as at the date of approval of these financial statements.

26 OTHER PAYABLES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(As reported)		(As reported)
Payable for forest acquisitions	**641,454**	–	**–**	–
Other payables and accrued expenses	**444,382**	174,498	**44,552**	25,814
Payable to the Chairman of the Company	**162**	227	**61**	64
	1,085,998	174,725	**44,613**	25,878

Payable for forest acquisitions represents considerations to be settled for acquisition of forest in the PRC within one year. Subsequently, the Group settled approximately RMB134.5 million before 22 April 2011.

Other payables and accrued expenses include salary and staff welfare payables, VAT payables and other miscellaneous payables. As at 31 December 2010, other payables to the Chairman of the Company represents payment of listing expense made on behalf of the Group.

During the period under investigation by Independent Committee, the Group has identified that the former management has not fully paid up and provided for the value added tax on sales of timber logs for the year ended 31 December 2010. The Group has taken proper steps to remedy this situation, by communicating with relevant tax bureau and preparing to settle the outstanding tax liabilities of the Group voluntarily.

As at the date of approval of these financial statements, the Group obtained confirmations from certain tax bureaus at county level confirming that the outstanding value added tax liabilities payable to those relevant tax bureaus have been settled.

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the other payables as at the date of approval of these financial statements.

27 NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(As reported)		(As reported)
Secured 7.75% senior notes due 2015 ("Senior Notes")	**1,948,862**	–	**1,948,862**	–

27 NON-CURRENT INTEREST-BEARING BORROWINGS *(CONTINUED)*

The Senior Notes bear interest at 7.75% per annum, and repayable on 17 November 2015.

The Senior Notes were secured by the shares of the Company's subsidiaries incorporated in Hong Kong and BVI, and were subject to the fulfilment of certain financial and non-financial covenants, as commonly found in lending arrangements in high yield senior notes. If the Group was to breach the covenants, the principal and, accrued and unpaid interest of the Senior Notes would become payable on demand. The Directors consider that none of the covenants had been breached as at 31 December 2010.

28 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 5 November 2009, the Group established a share option scheme that entitles key management personnel and senior employees to purchase shares in the Company. On 7 September 2010, the Group granted 42,750,000 options to a director, senior management and key employees at a consideration of HKD1 per individual. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

The option shall lapse on the date the grantee ceases to be an employee of the Group for any reason. Since February 2011, twelve out of twenty-three key management personnel and senior employees entitled to purchase shares under the share option scheme of the Company have not reported for work or have been suspended from duty. Any forfeiture of share options for those employees will be reflected in the coming financial statements.

(a) The terms and conditions of the grants are as follows:

Grant Date	Number of instruments	Vesting Date	Contractual life of options
Options granted to director:			
– On 7 September 2010	2,666,400	One year from the date of grant	10 years
– On 7 September 2010	2,666,400	Two years from the date of grant	10 years
– On 7 September 2010	2,667,200	Three years from the date of grant	10 years
Options granted to employees:			
– On 7 September 2010	11,582,175	One year from the date of grant	10 years
– On 7 September 2010	11,582,175	Two years from the date of grant	10 years
– On 7 September 2010	11,585,650	Three years from the date of grant	10 years
Total share options granted	42,750,000		

The options vest after one year to three years from the date of grant and are then exercisable within a period of ten years from the date of grant. Each vested option shall only become exercisable when the net cash generated from operating activities or operating profit of the Group as reported in the Group's latest audited consolidated financial statements available as of the Vesting Date for the vested options or in any subsequent period that the Group's net cash generated from operating activities or operating profit of the Group as reported in the subsequent audited consolidated financial statements is at least 25% higher than that of the preceding financial year. Any share option not exercised on or before 6 September 2020 will lapse.

28 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(CONTINUED)*

(b) The number and weighted average exercise prices of share options are as follows:

	2010 Weighted average exercise price HKD	2010 Number of options '000
Outstanding at the beginning of the year	–	–
Granted during the year	**3.23**	**42,750**
Outstanding at the end of the year	**3.23**	**42,750**
Exercisable at the end of the year	–	–

The options outstanding at 31 December 2010 had an exercise price of HKD3.23 and a weighted average remaining contractual life of approximately 9.7 years. The charge for the equity-settled share-based transaction during the year is RMB10,099,000.

(c) ### Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

	2010
Fair value of share options and assumptions	
Fair value at measurement date	**HKD63,328,000**
Share price	**HKD3.17**
Exercise price	**HKD3.23**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**74%**
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**10 years**
Expected dividends	**1.85%**
Risk-free interest rate (based on 10 year Hong Kong Exchange Fund Notes)	**1.979%**

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below.

The Company

	Note	Share capital RMB'000 (note (c))	Share premium RMB'000 (note (e)(i))	Capital reserve RMB'000 (note (e)(iii))	Exchange reserve RMB'000 (note (e)(iv))	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2009 (As reported)		232	247,886	88,557	(7,900)	(89,434)	239,341
Change in equity for 2009: (As reported)							
Shares issued	29(c)(i)	24	280,121	–	–	–	280,145
Capitalisation Issue	29(c)(ii)	15,038	(15,038)	–	–	–	–
Issuance of shares for placing and public offering	29(c)(iii)	5,503	1,472,301	–	–	–	1,477,804
Share issuance cost	29(c)(iii)	–	(109,410)	–	–	–	(109,410)
Total comprehensive income for the year		–	–	–	(1,719)	(22,809)	(24,528)
At 31 December 2009 (As reported)		20,797	1,875,860	88,557	(9,619)	(112,243)	1,863,352
At 1 January 2010		**20,797**	**1,875,860**	**88,557**	**(9,619)**	**(112,243)**	**1,863,352**
Dividends approved in respect of the previous year	29(b)	**–**	**(157,911)**	**–**	**–**	**–**	**(157,911)**
Equity-settled share-based transactions	28	**–**	**–**	**10,099**	**–**	**–**	**10,099**
Total comprehensive income for the year		**–**	**–**	**–**	**(58,964)**	**(59,569)**	**(118,533)**
At 31 December 2010		**20,797**	**1,717,949**	**98,656**	**(68,583)**	**(171,812)**	**1,597,007**

29 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2010 **RMB'000**	2009 RMB'000 (As reported)
Final dividend proposed after the end of the reporting period of HK NIL cents per ordinary share (2009: HK5.86 cents (RMB5.16 cents))	**–**	157,911

(ii) Dividend payable to equity shareholders of the Company attributable to the previous financial year; approved and paid during the year

	2010 **RMB'000**	2009 RMB'000 (As reported)
Final dividend in respect of the previous financial year, approved and paid during the year, of HK5.86 cents (RMB5.16 cents) per ordinary share (2009: Nil)	**157,911**	–

29 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

(c) Authorised and issued share capital

	2010 Number of ordinary shares '000	**2010** Amount USD'000	2009 Number of ordinary shares '000	2009 Amount USD'000 (As reported)
Authorised:				
Ordinary shares of USD0.001 each at 1 January and 31 December	**100,000,000**	**100,000**	100,000,000	100,000
Ordinary shares, issued and fully paid:				
Shares of USD0.001 each at 1 January	**3,060,452**	**3,060**	32,000	32
Issuance of new shares to pre-IPO investors (note (i))	–	–	3,565	4
Capitalisation issue (note (ii))	–	–	2,214,435	2,214
Issuance of shares for placing and public offering (note (iii))	–	–	810,452	810
Shares of USD0.001 each at 31 December	**3,060,452**	**3,060**	3,060,452	3,060

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(i) The Company allotted 3,565,217 new shares to certain pre-IPO investors in 2009.

(ii) On 5 November 2009, an amount of USD2,214,435 (equivalent to RMB15 million) standing to the credit of the share premium account was applied in paying up in full 2,214,434,783 shares of USD0.001 each. The shares were allotted and distributed as fully paid to the then shareholders of the Company in the proportion of their respective shareholdings.

29 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

(c) Authorised and issued share capital *(continued)*

(iii) On 3 December 2009, 750,000,000 ordinary shares were issued and offered for subscription at an issue price of HKD2.07 per share upon the listing of the Company's shares on the Stock Exchange. On 24 December 2009, an additional 60,452,000 ordinary shares were issued and offered for subscription under the over-allotment option. The proceeds of RMB5.5 million (equivalent to USD810,452) representing the par value were credited to the Company's share capital. The remaining proceeds before share issuance expenses of RMB1,472 million were credited to the share premium account.

Listing expenses amounted to RMB129,003,000, of which RMB109,410,000 has been credited to the share premium account and RMB19,593,000 has been recognised in other operating expenses during the year ended 31 December 2009.

(d) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	**2010 Number**	2009 Number
7 September 2011 to 6 September 2020	HKD3.23	**14,248,575**	–
7 September 2012 to 6 September 2020	HKD3.23	**14,248,575**	–
7 September 2013 to 6 September 2020	HKD3.23	**14,252,850**	–
		42,750,000	–

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 28 to the financial statements.

(e) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. The application of the share premium account is governed by the Companies Law of the Cayman Islands. The share premium is distributable.

29 CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

(e) Nature and purpose of reserves *(continued)*

(ii) Statutory surplus reserve

The Group is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC (collectively the "PRC GAAP"), to the statutory surplus reserve until the balance reaches 50% of the registered capital.

Subject to the approval of shareholders, statutory surplus reserve may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before such capitalisation.

(iii) Capital reserve

Capital reserve represents the portion of the grant date fair value of unexercised share options granted to director and employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(p)(iii), and the difference between the fair value of shares transferred to and the present value of consideration payable by a director.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(d).

(f) Distributable reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including the distributable amounts disclosed in note 29(a) was RMB1,576,210,000 (2009: RMB1,842,555,000 (as reported)).

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the accuracy of distributable reserves.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2010	2009
	RMB'000	RMB'000
		(As reported)
Short-term employee benefits	**11,944**	5,544
Retirement benefits	**95**	99
Equity compensation benefits	**4,725**	–
	16,764	5,643

(b) Financing arrangements

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(As reported)
Advance from directors (Note)	**261**	328
Advance to directors (Note)	**285**	1,012

Note:

The advances from directors are unsecured, interest free and has no fixed repayment term, which are included in "Other payables" (note 26).

The advance to a director is unsecured, interest free and repayable on demand, which is included in "Other receivables" (note 22).

30 MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Forest acquisition

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
		(As reported)
Prepayment to Guizhou Changsheng for forest acquisition (Note)	**383,484**	–

Note:

During the year and in the ordinary course of business, the Group prepaid an aggregate amount of RMB383,484,000 to Guizhou Jingping Changsheng Xinglv Forest Co., Ltd., and Guizhou Changsheng Green Resource Development Co., Ltd which are controlled by Mr. Zhou Xiaolin, the General Manager of Guizhou Wosen, a subsidiary of the Group. The prepayment is unsecured, interest-free and repayable on demand, which is included in "prepayment for forest acquisition" (note 20).

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the disclosure of related party transactions as at the date of approval of these financial statements.

31 EVENTS AFTER THE REPORTING PERIOD

As disclosed in note 2, subsequent to the end of the reporting period, irregularities have been reported by our auditor, KPMG. The Company has applied for suspension of trading in the shares on the Stock Exchange of Hong Kong and the senior notes on the Singapore Exchanges Securities Trading Limited on 26 January 2011 and 27 January 2011 respectively.

An independent board committee was formed by the Company to conduct an investigation into this matter.

Furthermore, the Audit Committee has also conducted an independent forensic investigation into this matter.

For further details of the development, please refer to note 2 to the financial statements.

Up to the date of these financial statements, the investigation are still on-going. Hence, no conclusion can be drawn at the date of this report.

Mr. Li Kwok Cheong, the Chairman and an executive Director, shall unconditionally and irrevocably indemnify the Company from and against all losses, liabilities, damages, deficiencies, diminution in value, interest, penalties, expenses, judgment awards or settlement of any nature or kind, and costs and expenses (including, without limitation, legal fees on a full indemnity basis) ("Losses") directly or indirectly suffered or incurred by the Group, save as those Losses which have been provided for in the consolidated financial statements of the Group for the year ended 31 December 2010, which was extracted in these financial statements.

31 EVENTS AFTER THE REPORTING PERIOD *(CONTINUED)*

Having considered the equity interest in the Company held by Mr. Li Kwok Cheong, the Board believes that Mr. Li Kwok Cheong will be able to render his obligations under the above personal indemnity.

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, the directors consider the immediate and ultimate parent of the Group to be Kingfly Capital Limited, which is incorporated in the British Virgin Islands and controlled by the Chairman of the Company, Mr. Li Kwok Cheong. This entity does not produce financial statements available for public use.

33 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 2 contains details of the basis of preparation of these financial statements and going concern assumption in view of the irregularities identified with respect to the Group's affairs. In addition, Notes 17, 18, 21 and 28 contain information about the assumptions relating to the fair value of lease prepayments and plantation assets, fair value less cost to sell of inventories and fair value of share options granted during the year. Other sources of estimation uncertainties are as follows:

(a) Taxation, value added taxes and duties

Determining tax provisions, including value added tax provision and duties, involves judgement, including the interpretation and application of tax and other legislation, on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account changes in tax legislations. When the final outcome of these transactions is different from the amounts that were initially recorded, such differences will impact provisions in the year in which such determination is made.

During the period under investigation by Independent Committee, the Group has identified that the former management has not fully paid up and provided the value added tax on sales of timber logs for the year ended 31 December 2010. As disclosed in note 26 the Group has taken proper steps to remedy this situation, by communicating with the relevant tax bureaus and preparing to settle the outstanding tax liabilities of the Group voluntarily.

As at the date of approval these financial statements, the Group obtained confirmations from certain tax bureaus at county level confirming that the outstanding value added tax liabilities payable to those relevant tax bureaus have been settled.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Revised IAS 24, *Related party disclosures*	1 January 2011
IFRS 9, *Financial instruments*	1 January 2013
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011

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

FIVE-YEAR SUMMARY

(Expressed in Renminbi in thousand)

	2010 RMB'000	2009 RMB'000 (As reported)	2008 RMB'000 (As reported)	2007 RMB'000 (As reported)	2006 RMB'000 (As reported)
Operating results					
Turnover	**1,064,025**	793,693	544,948	160,318	70,123
Result from operating activities	**(1,576,535)**	589,522	5,884,148	783,555	339,606
Suspense account	**(1,116,400)**	–	–	–	–
Net finance (costs)/income	**(18,885)**	(77,892)	(2,373)	174	150
(Loss)/profit before taxation	**(2,711,820)**	511,630	5,881,775	783,729	339,756
Income tax expense	**–**	–	–	–	–
(Loss)/profit for the year	**(2,711,820)**	511,630	5,881,775	783,729	339,756
Attributable to:					
Equity shareholders of the Company	**(2,711,820)**	511,630	5,881,775	783,729	339,756
Assets and liabilities					
Non-current assets	**6,492,140**	8,007,226	7,925,777	1,370,111	578,145
Net current assets/(liabilities)	**2,172,917**	1,587,233	(169,374)	20,436	28,673
Total assets less current liabilities	**8,665,057**	9,594,459	7,756,403	1,390,547	606,818
Non-current liabilities	**(1,948,862)**	–	(321,053)	–	–
Net assets	**6,716,195**	9,594,459	7,435,350	1,390,547	606,818
Share capital	**20,797**	20,797	232	10,000	10,000
Reserves	**6,695,398**	9,573,662	7,435,118	1,380,547	596,818
Total equity attributable to equity shareholders of the Company	**6,716,195**	9,594,459	7,435,350	1,390,547	606,818
(Loss)/earnings per share					
Basic and diluted (RMB)	**(0.89)**	0.22	2.61	0.35	0.15

(Expressed in Renminbi in thousand)

Notes:

(i) The Company was incorporated in the Cayman Islands on 21 December 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company became the holding company of the Group on 19 March 2008 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 January 2006, rather than from 19 March 2008. Accordingly, the consolidated results of the Group for the five years ended 31 December 2010 have been prepared as if the group structure immediately after the Reorganisation had been in existence since 1 January 2006. This financial summary includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2006. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.

(ii) As disclosed in note 2 to the financial statements of this annual report, during the audit process in respect of the financial year ended 31 December 2010, irregularities have been reported by KPMG, the auditors of the Company. Accordingly, in the interest of the Company, its shareholders and senior note holders as a whole, on 26 January 2011 and 27 January 2011 the Company has applied for suspension of trading in the shares on the Stock Exchange of Hong Kong and the senior notes on the Singapore Exchange Securities Trading Limited, respectively.

An independent board committee ("Independent Committee") composed of a non-executive director, who is independent to the irregularities and two independent non-executive directors, of the Company has been established to conduct an investigation into the matters concerned according to an action plan approved by the board of Directors.

The Audit Committee has also conducted an independent forensic investigation into the matters concerned.

As disclosed in further detail in note 2 to the financial statements of this annual report, the investigations found that the accounting and related records of the Group had been extensively falsified for the year ended 31 December 2010 and the directors were unable to locate certain books and records of the Group.

The above revelation, in view of the Board, casts serious doubts over the reliability and accuracy of the accounting records presented in past years, and of the financial statements of the Company and of the Group for the current and prior years. As a consequence, the Board considers the financial statements issued in previous years may be incorrect and misleading.

Management is in the process of reconstructing the accounting records of the Group for the current and prior years applying their best estimates and judgement based on the remaining information of the Group. However, given their questions over the reliability of the Group's accounting and other records, the Board believes that, as at the date of the report, it may be almost impossible, and not practical, to ascertain the correct revenue and profit or loss (and the resultant assets and liabilities) for the current and prior years for inclusion in the annual report of the Group.