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

2011
Interim Report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Kwok Cheong (Chairman)
Mr. Li Han Chun (duties suspended)
Mr. Lin Pu

Non-Executive Directors

Mr. Xiao Feng
Mr. Li Zhi Tong
Mr. Meng Fan Zhi

Independent Non-Executive Directors

Mr. Wong Tak-jun
Mr. Liu Can
Mr. Zhu De Miao
Ms. Hsu Wai Man, Helen
(appointed on 5 July 2011)

AUDIT COMMITTEE

Ms. Hsu Wai Man, Helen (Chairlady)
(appointed on 5 July 2011)
Mr. Wong Tak-jun
Mr. Liu Can
Mr. Zhu De Miao

REMUNERATION COMMITTEE

Mr. Wong Tak-jun (Chairman)
Mr. Xiao Feng
Mr. Zhu De Miao

NOMINATION COMMITTEE

Mr. Li Han Chun (Chairman)
(duties suspended)
Mr. Liu Can
Mr. Zhu De Miao

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

Room 11-13, 22/F, East Tower
World Financial Center
1 East Third Ring Middle Road
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

Management Discussion and Analysis

BUSINESS REVIEW

During the first half of 2011, China Forestry's primary focus was to deal with the irregularities identified at the beginning of the year (the "Irregularities"), to put in place a new senior management team, and to reform the internal organization and its processes with a view to rebuild our foundations for the Company's future growth. Greater efforts were also made to communicate with stakeholders – including customers, shareholders, bondholders, governments and business partners in a bid to reassure them of the management's determination and to bring the Company back on track.

As a result of the Irregularities and the change in the senior management team, our business operation has been negatively affected, therefore, we have not conducted any harvesting activities during the six months ended 30 June 2011 (the "Current Period"). The Company has continued to investigate the Irregularities and the investigation is still on-going. We are also seeking to improve our systems for recording data of our forestry assets in China.

Revenue generated in the first half of the year was derived solely from our timber log trading business. As part of our strategy to capture wider margins in the forestry value chain, we have decided to expand our business downstream by engaging in the timber log trade. Trading offices and teams were set up in Manzhouli, in the Inner Mongolia Autonomous Region and Yichun in Heilongjiang Province. During the period under review the Group traded a total of approximately 215,000 cubic meters of timber logs and approximately 2,600 cubic meters of lumber, generating RMB257.9 million in revenue. As of 30 June 2011, the Group had approximately 85,000 cubic meters of timber logs and approximately 41,000 cubic meters of lumber, all of which were located in northeastern China.

In May 2011, the Group signed a non-binding letter of intent with the government of Qiandongnan Prefecture, Guizhou Province, to acquire and develop high quality forestry assets. Under this agreement, China Forestry will invest in and develop three million mu (approximately 200,000 hectares) of renewable raw material forestry base land. The Group will process forestry products through environmentally friendly practices such as wood and seed cultivation; using new varieties of polyploidy trees; cultivating new varieties of genetically modified trees; and the sales, research and development of related products.

The forests of Guizhou are widely recognized to be of the highest quality in China. Currently, the Group's forest reserves are mainly located in Sichuan Province and Yunnan Province. The partnership with the government of Qiandongnan Prefecture in Guizhou Province will provide the Group with the opportunity to expand into Guizhou Province and to optimize its forest reserves.

As at 30 June 2011, the Group owned forestry rights to approximately 231,000 hectares of forest. In Sichuan Province, Yunnan Province and Guizhou Province, we owned forests of approximately 26,000 hectares, 203,000 hectares and 2,000 hectares, respectively. All forests assets owned by the Group were valued at approximately RMB5,747 million as at 31 December 2010.

In an effort to re-build our senior management team, since January 2011, the Company appointed Mr. Li Jian as acting Chief Executive Officer, who brings strong operational management experience to China Forestry. Mr. Michael Cheung's responsibilities as the Vice President, are to oversee financial management and investor relations; his appointment represents another major addition to the Company's solid team of experienced and professional senior executives. Mr. Xu Jiazeng was appointed as Financial Controller of the Group for its business operations in the PRC and is responsible for financial management and financial reporting of the PRC subsidiaries of the Group. Mr. Wei Bin and Ms. Wang Yan have been appointed as the general manager of the PRC subsidiaries of the Group in Sichuan Province and Guizhou Province, respectively and are responsible for overseeing the entire business operations of the Group in Sichuan Province and Guizhou Province, respectively.

To strengthen corporate governance and strategic management, the Company has made several key appointments to enrich and deepen the expertise and experience of the board. These include the appointments of Mr. Lin Pu as Executive Director, Mr. Meng Fan Zhi as Non-executive Director, and Mr. Zhu De Miao and Ms. Hsu Wai Man, Helen as Independent Non-executive Directors.

As of 30 June 2011, the Group had cash and bank balances of approximately RMB2,124.4 million, of which approximately RMB108.2 million and USD123.7 million were maintained in the PRC; and approximately HK$1.9 million and USD187.3 million were maintained in Hong Kong. With the aim of restructuring the Company's debt, China Forestry announced on 14 July 2011 the tender offer to purchase for cash upon certain terms and conditions up to USD120,000,000 in aggregate principal amount of the outstanding senior notes issued on 17 November 2010 due in 2015 (the "Senior Notes") from each registered holder of any such Senior Notes ("Noteholders"). On 10 August 2011, the tender offer has been successfully completed; holders of about 97.91% of the Senior Notes outstanding tendered their Senior Notes.

PROSPECTS

As China's steady economic growth leads to greater demand for wood and wood products, the Group remains optimistic about the sustainable demand for timber log. Furthermore, sustainability and technological innovation, and the overall enhancement of the forestry industry are cited as key priorities in the Chinese government's 12th Five Year Plan.

With the new senior management team in place and the internal re-organization completed, we have resumed our harvesting activities since August 2011. Concurrently, a targeted marketing campaign is underway to explore new markets and gain new customers.

The Group will continue its trading business to continue to bring in additional revenue and profit in the second half of this year. The Group will only engage in the physical trading of timber logs, and we have established comprehensive policies to manage potential trading risks. In order to capture the value chain of forestry industry, we also plan to expand into downstream wood processing sector. Besides, China Forestry is adopting a prudent approach to the further acquisition of forestry reserves. Continued efforts will be made to enhance internal control.

As at 26 August 2011, the Group had cash and bank balance of approximately RMB1,221.0 million, of which approximately RMB114.2 million and USD111.9 million were maintained in the PRC, and approximately HK$1.6 million and USD61.2 million were maintained in Hong Kong. Together with the financing facilities available to the Group, we have adequate resources not only to re-build our business, but to also be one of the leading players in this industry in the coming future.

FINANCIAL REVIEW

Revenue

During the Current Period, the Group recorded total revenue of RMB257.9 million, representing a decrease of 47.8% over the same period in 2010. The revenue were derived from trading of timber logs in the northeastern China.

Staff cost

Staff cost decreased by 34% to RMB7.7 million for the period ended 30 June 2011 from RMB11.6 million over the same period last year mainly due to the forfeiture of unvested share options of former senior management early this year.

Consultancy fees

Consultancy fees for the period increased to RMB4.7 million for the period ended 30 June 2011 from RMB2.1 million over the same period mainly due to the increase in professional fees to conduct independent investigation during the Current Period.

Foreign exchange loss/gain

The foreign exchange loss arose mainly due to the proceeds of the issuance of USD300 million Senior Notes on 17 November 2010 being transmitted to the PRC operations where they remained as US Dollar denominated deposits during the Current Period.

Amortisation of insurance premium

The insurance premium incurred for the period ended 30 June 2011 represented the insurance to cover the log inventory kept in the northeastern China.

Other operating expenses

The increase in other operating expenses by 25.0% to RMB15.0 million for the period ended 30 June 2011 from RMB12.0 million over the same period was mainly due to the operating expenses of a new subsidiary in Shanghai and a donation of RMB2 million for Yingjiang Earthquake in Yunnan province.

Finance costs

Finance costs for the period ended 30 June 2011 of RMB79.5 million arose from the issuance of Senior Notes with total amount of USD300 million on 17 November 2010.

Income tax expenses

Pursuant to section 27 of the Corporate Income Tax Law of the PRC and section 86 of the Implementation Regulations of the Corporate Income Tax Law, the income derived from our forestry business is exempt from income tax. For timber log trading business, the Group is subject to the Corporate Income Tax at 25% standard rate.

Loss for the period

Based on the foregoing reasons, our loss attributable to the equity shareholders of the Company amounted to approximately RMB130.0 million for the Current Period.

SEGMENTAL INFORMATION

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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group maintained cash and bank balances of approximately RMB2,124.4 million (31 December 2010: RMB2,784.7 million).

CONTINGENT LIABILITIES

As at 30 June 2011, the Group believes it did not have any material contingent liabilities or guarantees (31 December 2010: Nil).

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 30 June 2011 and 31 December 2010.

On 14 July 2011, the Company launched the Tender Offer to purchase for cash, upon terms and subject to the conditions, up to USD120,000,000 aggregate principal amount of the outstanding Senior Notes.

The tender offer expired on 10 August 2011. Holders of 97.91% of the Senior Notes had tendered their Senior Notes and holders of 98.89% of the Senior Notes had given consents to amend certain provisions of the Indenture governing the Senior Notes, to waive any failures to comply with the Indenture, defaults and events of defaults and to release the current officers and directors from certain liabilities. Commencing 15 August 2011, the interest rate increased to 10.25%. For details, please refer to the announcements made by the Company dated 14 July 2011, 1 August 2011 and 12 August 2011 in relation to the Tender Offer.

FINANCIAL INSTRUMENTS

The Group did not hold any financial instruments for hedging purposes during the Current Period and the year ended 31 December 2010.

FOREIGN EXCHANGE EXPOSURE

The Group's businesses are located in the PRC and its operating transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, Hong Kong dollars and US dollars. Since the Renminbi is not freely convertible, there is a risk that the PRC government may take actions affecting exchange rates which may have a material adverse effect on its net assets, earnings and any dividends it declares if such dividends are to be exchanged or converted into foreign currency. Moreover, the Group has not hedged its foreign exchange risk.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group had no material acquisition or disposal of any subsidiaries and associated companies during the Current Period.

BORROWING AND GEARING RATIO

As at 30 June 2011, the Group had the Senior Notes of USD300 million bearing interest at 7.75% per annum, and repayable on 17 November 2015. Following the tender offer, the Group had Senior Notes of USD180 million, bearing interest at 10.25%.

The Group's gearing ratio is total debts divided by total assets. The Group's policy is to keep the gearing ratio at reasonable level. The Group's gearing ratio as at 30 June 2011 was 0.29 (31 December 2010: 0.31).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2011, the Group had a total of 290 employees (31 December 2010: 224 employees). The Group's employment and remuneration policies remain the same as those described in the Annual Report for the year ended 31 December 2010.

The Directors hereby present their report and the unaudited interim financial report of the Group for the six months ended 30 June 2011.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (30 June 2010: Nil) to the shareholders.

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

As at 30 June 2011, 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 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	1,556,950,000	50.87%
	Security interest	75,000,023	2.45%
Li Han Chun[(2)]	Interest of a controlled corporation	83,175,000	2.72%
Wong Tak-jun[(3)]	Interest of spouse	48,000	0.002%

Notes:

(1) Kingfly Capital Limited ("Kingfly Capital") 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. Kingfly Capital 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 ("Top Wisdom").

(2) Top Wisdom 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.

(3) Mr. Wong Tak-jun, the spouse of Ms. Wong Ya Hui, is deemed to be interested in all the Shares in which Ms. Wong Ya Hui is interested. Ms. Wong Ya Hui is the legal and beneficial owner of the 48,000 Shares.

Save as disclosed above, as at 30 June 2011, 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. During the period ended 30 June 2011, 34,250,000 unvested options were forfeited. For further details on the financial aspects of the share options, please refer to note 18 to the unaudited interim financial report.

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 30 June 2011, 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	Note	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Kingfly Capital	1	Beneficial Owner	1,556,950,000	50.87%
		Security Interest	75,000,023	2.45%
Mr. Li Kwok Cheong	1	Interest in controlled corporation	1,556,950,000	50.87%
		Security Interest	75,000,023	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%
Partners Group AG	3	Investment Manager	165,150,000	5.40%
Partners Group Holding AG	4	Interest in controlled company	165,150,000	5.40%
Top Wisdom	5	Beneficial owner	83,175,000	2.72%
Mr. Li Han Chun	5	Interest in controlled corporation	83,175,000	2.72%

Notes:

1. Kingfly Capital 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. Kingfly Capital, as the chargee in respect of a charge made by Top Wisdom 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. 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.

4. 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.

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

Save as disclosed above, as at 30 June 2011, 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.

CORPORATE GOVERNANCE

The Group has adopted the Corporate Governance ("CG") Code as its own code of corporate governance. The Group has complied with the code provisions of the CG Code as set out in Appendix 14 of the Listing Rules throughout the Current Period and up to the date of the publication of this report.

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

Throughout the Current Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 of 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 (except Mr. Li Han Chan, who had been suspended duties) of the Group, they confirmed that they have complied with the required standard of dealings as set out in the Model Code.

REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The audit committee of the Group currently comprises four independent non-executive directors, namely Ms. Hsu Wai Man, Helen (Chairlady of the Audit Committee), Mr. Wong Tak-jun, Mr. Liu Can and Mr. Zhu De Miao. All members of the audit committee have reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2011 and have discussed with the Group's management regarding auditing, internal control and other important matters.

APPRECIATION

I would like to take this opportunity to thank my fellow directors, our staff and all our stakeholders for their continued support.

By order of the Board
China Forestry Holdings Co., Ltd.
Li Kwok Cheong
Chairman

Hong Kong, 31 August 2011

Consolidated Income Statement (Unaudited)

for the six months ended 30 June 2011

	Note	Six months ended 30 June 2011 RMB'000	2010 RMB'000 (as reported)
Turnover	3	**257,929**	494,257
Cost of timber logs sold		**(256,750)**	(362,809)
Other operating income	4	**30**	568
Amortisation of insurance premium		**(998)**	(10,427)
Amortisation of lease prepayments	10	**–**	(3,861)
Changes in fair value of plantation assets less costs to sell			
– changes during the period	11	**–**	470,617
Consultancy fees		**(4,743)**	(2,062)
Depreciation		**(1,970)**	(2,214)
Loss on disposal of fixed assets		**–**	(29)
Foreign exchange (loss)/gain		**(23,230)**	2,223
Operating expenses for logging activities		**–**	(131,512)
Other operating expenses		**(14,969)**	(12,010)
Rental expenses of properties		**(2,868)**	(1,201)
Staff costs	6	**(7,658)**	(11,595)
Travelling expenses		**(3,207)**	(1,638)
(Loss)/profit from operations		**(58,434)**	428,307
Finance income		**8,011**	988
Finance expenses		**(79,531)**	–
Net finance (costs)/income	5	**(71,520)**	988
(Loss)/profit before taxation		**(129,954)**	429,295
Income tax	7	**–**	–
(Loss)/profit for the period		**(129,954)**	429,295
Attributable to:			
Equity shareholders of the Company		**(129,954)**	429,295
(Loss)/earnings per share (RMB)			
Basic and diluted	8	**(0.04)**	0.14

The notes on pages 23 to 44 form part of this unaudited interim financial report. Details of dividends payable to equity shareholders of the Company attributable to the (loss)/profit for the period are set out in note 17.

Consolidated Statement of Comprehensive Income (Unaudited)

for the six months ended 30 June 2011

	Note	Six months ended 30 June **2011** RMB'000	2010 RMB'000 (as reported)
(Loss)/profit for the period		**(129,954)**	429,295
Other comprehensive income for the period			
Exchange differences of translation of financial statements of overseas entities		**14,525**	(3,647)
Available-for-sale securities: net movement in fair value reserve		**–**	614
Total comprehensive income for the period		**(115,429)**	426,262
Attributable to:			
Equity shareholders of the Company		**(115,429)**	426,262

The notes on pages 23 to 44 form part of this unaudited interim financial report.

Consolidated Statement of Financial Position (Unaudited)

at 30 June 2011

	Note	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000 (as reported)
Non-current assets			
Property, plant and equipment	*9*	**19,372**	19,493
Lease prepayments	*10*	**342,163**	342,163
Plantation assets	*11*	**5,747,000**	5,747,000
Prepayment for forest acquisition	*12*	**383,484**	383,484
Total non-current assets		**6,492,019**	6,492,140
Current assets			
Inventories		**267,015**	413,870
Trade and other receivables	*13*	**432,656**	50,638
Other financial assets		**12,373**	9,734
Cash and cash equivalents	*14*	**2,124,444**	2,784,673
Total current assets		**2,836,488**	3,258,915
Current liabilities			
Other payables	*15*	**(825,407)**	(1,085,998)
Total current liabilities		**(825,407)**	(1,085,998)
Net current assets		**2,011,081**	2,172,917
Total assets less current liabilities		**8,503,100**	8,665,057
Non-current liabilities			
Interest-bearing borrowings	*16*	**(1,908,408)**	(1,948,862)
Total non-current liabilities		**(1,908,408)**	(1,948,862)
Net assets		**6,594,692**	6,716,195
Capital and reserves			
Share capital		**20,797**	20,797
Reserves		**6,573,895**	6,695,398
Total equity attributable to equity shareholders of the Company		**6,594,692**	6,716,195

Approved and authorised for issue by the board of directors on 31 August 2011.

Li Kwok Cheong
Director

Lin Pu
Director

The notes on pages 23 to 44 form part of this unaudited interim financial report.

Consolidated Statement of Changes in Equity (Unaudited)

for the six months ended 30 June 2011

	Attributable to equity shareholders of the Company							
	Share Capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Exchange reserve RMB'000	Fair value reserve RMB'000	Retained earnings RMB'000	Total RMB'000
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 the six months ended 30 June 2010 (as reported)								
Dividend approved in respect of the previous year	–	(157,911)	–	–	–	–	–	(157,911)
Total comprehensive income for the period	–	–	–	–	(3,647)	614	429,295	426,262
Balance at 30 June 2010 and 1 July 2010 (as reported)	20,797	1,717,949	170,865	88,557	(4,980)	614	7,869,008	9,862,810
Changes in equity for the six months ended 31 December 2010 (as reported)								
Equity settled share based transaction	–	–	–	10,099	–	–	–	10,099
Total comprehensive income for the period	–	–	–	–	(14,985)	(614)	(3,141,115)	(3,156,714)
Balance at 31 December 2010 and 1 January 2011 (as reported)	20,797	1,717,949	170,865	98,656	(19,965)	–	4,727,893	6,716,195
Change in equity for the six months ended 30 June 2011:								
Equity settled share based transaction	**-**	**-**	**-**	**(6,074)**	**-**	**-**	**-**	**(6,074)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**14,525**	**-**	**(129,954)**	**(115,429)**
Balance at 30 June 2011	**20,797**	**1,717,949**	**170,865**	**92,582**	**(5,440)**	**-**	**4,597,939**	**6,594,692**

The notes on pages 23 to 44 form part of this unaudited interim financial report.

Condensed Consolidated Cash Flow Statement (Unaudited)

for the six months ended 30 June 2011

	Note	Six months ended 30 June	
		2011	2010
		RMB'000	RMB'000
			(as reported)
Cash (used in)/generated from operations		**(276,342)**	362,284
Tax paid		**–**	–
Net cash (used in)/generated from operating activities		**(276,342)**	362,284
Net cash used in investing activities		**(255,523)**	(376,314)
Net cash used in financing activities		**(76,200)**	(157,911)
Net decrease in cash and cash equivalents		**(608,065)**	(171,941)
Cash and cash equivalents at 1 January	*14*	**2,784,673**	1,706,636
Effect of foreign exchange rate changes		**(52,164)**	–
Cash and cash equivalents at 30 June	*14*	**2,124,444**	1,534,695

The notes on pages 23 to 44 form part of this unaudited interim financial report.

1 BASIS OF PREPARATION

Except for the "Incomplete books of accounts and records of the Group" paragraphs as stated below, the unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 31 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. In preparing this unaudited interim financial report, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that were applied to the 2010 annual financial statements.

This unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The interim financial report is unaudited, but has been reviewed by the Company's Audit Committee.

1 BASIS OF PREPARATION (continued)

This unaudited interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2010. The financial information relating to the financial year ended 31 December 2010 that is included in this unaudited interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2010 are available from the Company's registered office. The auditors have expressed a disclaimer of opinion on those financial statements in their report dated 29 April 2011.

Irregularities reported by the Group's independent auditors

As disclosed in note 2 of the Group's annual financial statements for the year ended 31 December 2010 (which were disclaimed by the Group's independent auditors), irregularities have been reported by KPMG, the independent auditors of the Group (the "Irregularities") during the audit process in respect of the financial year ended 31 December 2010. Accordingly, in the interest of the Group, 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 of Hong Kong Limited ("Stock Exchange") and the Senior Notes on the Singapore Exchange Securities Trading Limited, respectively.

Details of the Irregularities were also disclosed in note 2 of the Group's annual financial statements for the year ended 31 December 2010.

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.

1 BASIS OF PREPARATION (continued)

Irregularities reported by the Group's independent auditors (continued)

Ms. Wu Xiao Fen ("Ms. Wu"), Mr. Zhang Hong Yu ("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 were then not contactable.

In an effort to re-build the senior management team, since January 2011, the Company appointed Mr. Li Jian as acting Chief Executive Officer, Mr. Michael Cheung as Vice President, Mr. Xu Jiazeng as the financial controller of the Group's PRC operation, Mr. Wei Bin and Ms. Wang Yan as the general manager of the PRC subsidiaries of the Group in Sichuan Province and Guizhou Province, respectively, Mr. Lin Pu as Executive Director, Mr. Meng Fan Zhi as Non-executive Director, and Mr. Zhu De Miao and Ms. Hsu Wai Man, Helen as Independent Non-executive Directors.

On 29 April 2011, a progress update on findings of investigation and rectification measures taken by the Company has been reported by the Independent Committee (please refer to the announcement on the Stock Exchange dated 29 April 2011). The investigation is still on-going as of the date of approval of this unaudited interim financial report.

Incomplete books of accounts and records of the Group

As disclosed in note 2 of the Group's annual financial statements for the year ended 31 December 2010, 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 view, 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 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.

1 BASIS OF PREPARATION (continued)

Incomplete books of accounts and records of the Group (continued)

Due to loss of some books and records, and lack of cooperation from the Group's previous chief executive officer, Mr. Li Han Chun, the Group's previous joint chief financial officer, Ms. Wu and the Group's previous chief resource officer, 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 past years.

Accordingly, the comparative financial information disclosed in this unaudited interim financial report only represents such information as was reported in the published interim financial report for the six months ended 30 June 2010 and annual report for the year ended 31 December 2010 and therefore may not be comparable with the figures for the current period.

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

– Details of the Group's credit policy and aging of debtors and creditors as required by the Listing Rules; and

– Details of contingent liabilities and commitments as required by IAS 34;

Any adjustments arising from the matters described above would have a consequential significant effect on the net loss of the Group for the six months ended 30 June 2011 and year ended 31 December 2010 and net assets of the Group as at 30 June 2011 and 31 December 2010.

1 BASIS OF PREPARATION (continued)

Incomplete books of accounts and records of the Group (continued)

Due to the limited financial information available and the fact that most of the former key accounting personnel of the Group have left without notice since February 2011, 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 brought forward balances as included in the unaudited interim financial report for the period ended 30 June 2011 and have formed the opinion as follows:

As the unaudited interim financial report 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 six months ended 30 June 2010 have been properly reflected in the unaudited interim financial report. 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 property, plant and equipment in note 9, lease prepayments in note 10, plantation assets in note 11, prepayment for forest acquisition in note 12, trade and other receivables in note 13, cash and cash equivalents in note 14, other payables in note 15, and related party disclosure in note 19.

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 period ended 30 June 2011 and 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 six months ended 30 June 2011 and the year ended 31 December 2010 and net assets of the Group as at 30 June 2011 and 31 December 2010.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IAS 24 (revised 2009), *Related party disclosures*
- Improvements to IFRSs (2010)

These developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are the management of forests and sale of timber logs in the PRC.

Turnover in 2011 represents the sales value of imported timber logs and lumber supplied to customers less value added tax, returns and trade discounts, which was solely derived from our timber log trading business in the Northeastern China. Turnover for the six months ended 30 June 2010 represents the sales value of harvested logs supplied to customers less value added tax, returns and trade discounts as previously reported.

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.

As disclosed in note 1, 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 comparative amount of turnover of the Group as of the date of approval of this unaudited interim financial report.

4 OTHER OPERATING INCOME

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(as reported)
Government grants	**9**	193
Others	**21**	375
	30	568

As disclosed in note 1, 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 comparative amount of other operating income of the Group as of the date of approval of this unaudited interim financial report.

5 NET FINANCE (COSTS)/INCOME

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(as reported)
Change in fair value of derivative financial instruments	**2,892**	–
Interest income earned from deposits with banks	**5,119**	988
Interest on borrowings wholly repayable within five years	**(79,488)**	–
Others	**(43)**	–
	(71,520)	988

As disclosed in note 1, 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 comparative amount of net finance (costs)/income of the Group as of the date of approval of this unaudited interim financial report.

6 STAFF COSTS

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
		(as reported)
Salaries, wages and other benefits	**12,525**	10,619
Contributions to defined contribution retirement schemes	**1,207**	976
Equity-settled share-based payment (note 18)	**(6,074)**	–
	7,658	11,595

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 20% – 22% (2010: 20%) of the standard wages determined by the relevant authorities during the six months ended 30 June 2011. Contributions to the Schemes vest immediately.

The Group 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.

As disclosed in note 1, 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 comparative amount of staff costs of the Group as of the date of approval of this unaudited interim financial report.

7 INCOME TAX

(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 any assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2011 and 2010.

(c) Under the PRC tax law, the Corporate Income Tax rate of the PRC was 25% for the six months ended 30 June 2011 (six months ended 30 June 2010: 25%).

Pursuant to section 27 of the Corporate Income Tax Law of the PRC ("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.

Under the PRC tax law, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or a place of business but the relevant income is not effectively connected with the establishment or 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 amounted to RMB4,867,966,000 and RMB243,398,000 respectively as at 30 June 2011 (at 31 December 2010: RMB4,938,378,000 and RMB246,919,000 respectively (as reported)).

As disclosed in note 1, 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 retained earnings of the PRC subsidiaries and hence the related unrecognised deferred tax liabilities as of the date of approval of this unaudited interim financial report.

8 (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2011 is based on the loss attributable to equity shareholders of the Company of RMB(129,954,000) (six months ended 30 June 2010: profit of RMB429,295,000 (as reported)) and 3,060,452,000 ordinary shares (six months ended 30 June 2010: 3,060,452,000 ordinary shares) in issue during the interim period.

The diluted loss per share for the period ended 30 June 2011 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 period ended 30 June 2010.

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired fixed assets with an aggregate cost of RMB2,139,000 (six months ended 30 June 2010: RMB3,969,000 (as reported)). Items of fixed assets with a net book value of RMB36,000 were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: RMB64,000 (as reported)).

As disclosed in note 1, 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 this unaudited interim financial report.

10 LEASE PREPAYMENTS

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 the PRC Forest Law issued by the State Council of the PRC.

As disclosed in note 1, on the basis that the relevant books and records are either lost or are incomplete, the Group 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 period, or the completeness and accuracy of the lease prepayments of the Group.

11 PLANTATION ASSETS

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000 (as reported)
At 1 January	**5,747,000**	7,767,000
Changes in fair value less costs to sell and other reconciling items (note (a))	**–**	(2,020,000)
At 30 June 2011/31 December 2010	**5,747,000**	5,747,000

(a) As disclosed in note 1, 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 balances as at 1 January 2011. The "changes in fair value less costs to sell and other reconciling items" amount reported for 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 by the Board 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 (b) 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 this unaudited interim financial report.

11 PLANTATION ASSETS (continued)

(b) The Group has engaged Chandler Fraser Keating Limited ("CFK") to perform an independent valuation on its plantation assets in the PRC as at 30 June 2011. 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, discounted at the rates of 13% (2010: 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.

Since there was no harvesting activity during the period ended 30 June 2011 and 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. CFK expressed in their valuation report issued to the Group dated 26 August 2011 that it is more appropriate not to update the valuation of the Group's plantation assets as at 30 June 2011 until more reliable volume estimates and other data are available. The actual area, composition and yield of the forests are 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.

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;

11 PLANTATION ASSETS (continued)

(b) (continued)

- 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.

The basis for preparing the valuation for the period ended 30 June 2011

- No material change to prices and costs during the period ended 30 June 2011;

- There is no evidence to support a change in the implied discount rate after reviewed transactional evidence during the period ended 30 June 2011; and

- Given the uncertainties on the area and stock volume figures, it is not prudent or appropriate to update the valuation for growth until more reliable estimates on the stock volume and other data are available.

12 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 (note 19(c)).

As disclosed in note 1, 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 this unaudited interim financial report.

13 TRADE AND OTHER RECEIVABLES

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000 (as reported)
Trade receivables	**129,317**	1,863
Other receivables	**18,692**	2,685
Other prepayments and deposits	**284,647**	46,090
	432,656	50,638

The Group's prepayments mainly represent prepayments of inventory for timber trading. The Group's trade receivables represent receivables from timber trading.

As disclosed in note 1, 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 receivables aging, credit policy and impairment assessment.

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000 (as reported)
Cash at bank and in hand	**2,124,444**	2,784,673

The Group's cash and cash equivalents include cash at bank and in hand of approximately RMB908,810,000 which were held in the PRC as at 30 June 2011 (31 December 2010: approximately RMB1,120,821,000). 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.

As disclosed in note 1, 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 of the cash and cash equivalents at the date of approval of this unaudited interim financial report.

15 OTHER PAYABLES

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000 (as reported)
Payable for forest acquisitions	**380,901**	641,454
Other payables and accrued expenses	**444,506**	444,382
Payable to the Chairman of the Company	**–**	162
	825,407	1,085,998

15 OTHER PAYABLES (continued)

Payable for forest acquisitions represents considerations to be settled for acquisition of forest in the PRC within one year.

Other payables and accrued expenses include salary and staff welfare payables, VAT payables and other miscellaneous payables.

As disclosed in note 1, 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 this unaudited interim financial report.

16 INTEREST BEARING BORROWINGS

Interest bearing borrowings represent the USD300 million Senior Notes issued on 17 November 2010, 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.

On 14 July 2011, the Company launched the Tender Offer to purchase for cash, upon terms and subject to the conditions, up to USD120,000,000 aggregate principal amount of the outstanding Senior Notes.

The tender offer expired on 10 August 2011. Holders of 97.91% of the Senior Notes had tendered their Senior Notes and holders of 98.89% of the Senior Notes had given consents to amend certain provisions of the Indenture governing the Senior Notes, to waive any failure to comply with the Indenture, defaults and events of defaults and to release the current officers and directors from certain liabilities.

16 INTEREST BEARING BORROWINGS (continued)

USD123,747,000 (comprised of USD120,000,000 aggregate principal amount, USD2,273,000 interest and USD1,474,000 consent fees) have been paid to the Noteholders on 15 August 2011. Commencing 15 August 2011, the interest rate to be paid on the Senior Notes has been increased from 7.75% per annum to 10.25% per annum on the Senior Notes that remain outstanding.

The Directors consider that none of the covenants had been breached as at 30 June 2011 and 31 December 2010.

17 DIVIDENDS

(a) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$Nil (RMBNil cents) per ordinary share (six months ended 30 June 2010: HK$5.86 cents (RMB5.16 cents))	**–**	157,911

(b) The Board does not recommend the payment of dividends attributable to the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

18 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 HK$1 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. As at 30 June 2011, fifteen out of twenty-three key management personnel and senior employees entitled to purchase shares under the share option scheme of the Company have resigned or have been suspended from duty. Forfeiture of share options for those employees has been reflected in this unaudited interim financial report for the six months ended 30 June 2011.

(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		

18 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(a) (continued)

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 and 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 if this condition is not fulfilled at the Vesting Date, 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.

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

	Six month ended 30 June 2011	
	Weighted average exercise price HKD	**Number of options '000**
Outstanding at the beginning of the period	**3.23**	**42,750**
Forfeited during the period	**3.23**	**(34,250)**
Outstanding at the end of the period	**3.23**	**8,500**
Exercisable at the end of the period	**–**	**–**

The options outstanding at 30 June 2011 had an exercise price of HK$3.23 and a weighted average remaining contractual life of approximately 9.2 years.

18 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

(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.

Fair value of share options and assumptions

Fair value at measurement date	HK$63,328,000
Share price	HK$3.17
Exercise price	HK$3.23
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.

19 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 are as follows:

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000 (as reported)
Short-term employee benefits	**5,658**	6,204
Retirement benefits	**46**	52
Equity compensation benefits	**1,048**	–
	6,752	6,256

(b) Financing arrangements

	As at 30 June 2011	As at 31 December 2010
	RMB'000	RMB'000 (as reported)
Advance from a director (Note)	**513**	261
Advances to directors (Note)	**100**	285

Note:

The advance from a director is unsecured, interest free and has no fixed repayment term.

The advances to directors are unsecured, interest free and repayable on demand.

As disclosed in note 1, 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 this unaudited interim financial report.

19 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Forest acquisition

	As at 30 June 2011 RMB'000	As at 31 December 2010 RMB'000 (as reported)
Prepayment to Guizhou Changsheng for forest acquisition	**383,484**	383,484

On 16 March 2010, the Group in the ordinary course of business, 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 former General Manager of Guizhou Wosen, a subsidiary of the Group. Mr. Zhou Xiaolin is no longer the General Manager of Guizhou Wosen since March 2011. The prepayment is unsecured, interest-free and repayable on demand, which is included in "prepayment for forest acquisition" (note 12).