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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

ANNUAL RESULTS

The Board of Directors (the "Board") of China Forestry Holdings Co., Ltd. (the "Company") presents the consolidated results of the Company and its subsidiaries (the "Group" or "China Forestry") for the year ended 31 December 2012.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012
(Expressed in Renminbi)

	Note	**2012**	2011
		RMB'000	*RMB'000*
Turnover	5	**143,952**	392,271
Cost of inventory sold		**(159,089)**	(448,220)
Other operating income	6(a)	**23,564**	22,367
Amortisation of insurance premium		**(146)**	(920)
Amortisation of lease prepayments		**(9,679)**	(9,019)
Consultancy fees		**(14,884)**	(23,123)
Depreciation		**(12,286)**	(4,728)
Foreign exchange loss		**(3,085)**	(37,484)
Other operating expenses	6(b)	**(35,401)**	(78,322)
Rental expenses of properties		**(8,078)**	(6,785)
Staff costs	8	**(45,862)**	(39,487)
Travelling expenses		**(7,256)**	(6,245)
Impairment loss on lease prepayments		**(3,876)**	(79,695)
Changes in fair value of plantation assets less costs to sell and other reconciling items		**(858,230)**	(2,891,916)
Impairment loss on trade receivables		**(7,581)**	(122,699)
Impairment loss on other receivables		**(935)**	(3,800)
Impairment loss on prepayment for forest acquisition		**–**	(383,484)
Write-down of inventories		**(56,298)**	(120,070)
Impairment loss on prepayment for purchase of inventories		**(13,000)**	(125,562)
Gain on a bargain purchase of subsidiaries		**1,665**	–
Loss from operations		**(1,066,505)**	(3,966,921)
Finance income		**14,590**	15,480
Finance expenses		**(125,523)**	(177,023)
Net finance costs	7	**(110,933)**	(161,543)
Loss before taxation		**(1,177,438)**	(4,128,464)
Income tax	9	**(9,305)**	(62,193)
Loss for the year		**(1,186,743)**	(4,190,657)
Attributable to:			
Owners of the Company		**(1,180,302)**	(4,190,657)
Non-controlling interests		**(6,441)**	–
		(1,186,743)	(4,190,657)
Loss per share (RMB)			
Basic and diluted	10	**(0.39)**	(1.37)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for year ended 31 December 2012
(Expressed in Renminbi)

	Note	**2012** **RMB'000**	2011 RMB'000
Loss for the year		**(1,186,743)**	(4,190,657)
Other comprehensive income for the year, net of tax			
Exchange differences on translation of financial statements of group entities outside of the PRC		**16,298**	25,674
Total other comprehensive income for the year		**16,298**	25,674
Total comprehensive loss for the year		**(1,170,445)**	(4,164,983)
Attributable to:			
Owners of the Company		**(1,164,004)**	(4,164,983)
Non-controlling interests		**(6,441)**	–
		(1,170,445)	(4,164,983)

The components of other comprehensive income do not have any significant tax effect for each of the two years ended 31 December 2012 and 2011.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

(Expressed in Renminbi)

	Note	**2012**	2011
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**145,418**	21,674
Lease prepayments		**316,564**	254,910
Plantation assets		**2,033,900**	2,898,000
Prepayment for forest acquisition		**49,787**	26,222
Prepayment for purchase of leasehold land		**–**	42,873
Deposit for construction of a property		**6,212**	–
Deferred tax assets		**3,642**	–
Total non-current assets		**2,555,523**	3,243,679
Current assets			
Lease prepayments		**10,724**	9,019
Inventories		**39,405**	107,135
Trade and other receivables	*13*	**88,363**	137,343
Loan receivable		**50,000**	–
Due from customers on construction contracts		**28,804**	–
Financial assets at fair value through profit or loss		**66,560**	54,676
Bank deposits with maturity over 3 months		**–**	59,858
Pledged bank deposits		**10,700**	–
Cash and cash equivalents		**395,876**	749,638
Total current assets		**690,432**	1,117,669
Current liabilities			
Trade and other payables	*14*	**(617,627)**	(614,820)
Interest-bearing borrowings		**(70,000)**	–
Current income tax payable		**(71,385)**	(62,122)
Financial guarantee liabilities		**(3,000)**	–
Total current liabilities		**(762,012)**	(676,942)
Net current (liabilities)/assets		**(71,580)**	440,727
Total assets less current liabilities		**2,483,943**	3,684,406
Non-current liabilities			
Interest-bearing borrowings		**(1,106,989)**	(1,124,833)
Total non-current liabilities		**(1,106,989)**	(1,124,833)
NET ASSETS		**1,376,954**	2,559,573
CAPITAL AND RESERVES			
Share capital		**20,797**	20,797
Reserves		**1,313,885**	2,538,776
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,334,682**	2,559,573
NON-CONTROLLING INTERESTS		**42,272**	–
TOTAL EQUITY		**1,376,954**	2,559,573

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012
(Expressed in Renminbi)

1. GENERAL INFORMATION

China Forestry Holdings Company Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 December 2009 and have been suspended from trading since 26 January 2011. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands and Room 2507, 25th Floor, Bank of America Tower, 12 Harcourt road, Hong Kong respectively. The principal activities of the Company are investment holding and those of its principal subsidiaries are forestry management, trading of timber logs and lumbers and provision of wood processing and construction of wood-frame house services in the People's Republic of China (the "PRC").

2. GOING CONCERN

The Group incurred a loss attributable to the owners of the Company of RMB1,180,302,000 (2011: RMB4,190,657,000) and cash outflow from operating activities of RMB98,291,000 (2011: RMB331,951,000) for the year ended 31 December 2012 and had net current liabilities of RMB71,580,000 (2011: net current assets of RMB440,727,000) and net debt of RMB770,413,000 (2011: RMB315,337,000) as at 31 December 2012 respectively. In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and the Company and the ability of the Group and the Company to attain profitable and positive cash flows from operations in the immediate and longer term.

Based on the cash flow projections of the Group and having taken into account the available financial resources of the Company, the directors have concluded that the Group and the Company is able to continue as a going concern and to meet their financial liabilities as and when they fall due in the foreseeable future.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out in the notes to the consolidated financial statements.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries. The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except for per share data. The functional currency of the entities within the Group is Hong Kong dollars ("HK$") 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 measurement basis used in the preparation of the financial statements is the historical cost basis except for the following.

- financial instruments classified as financial assets at fair value through profit or loss;
- derivative financial instruments; and
- plantation assets.

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 the carrying amounts 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 a significant effect on the financial statements and major sources of estimation uncertainty are discussed in notes to the consolidated financial statements.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the amendments to IFRS 7, Financial instruments: Disclosures – Transfers of financial assets, is relevant to the Group's financial statements. The amendments to IFRS 7 require certain disclosures to be included in the financial statements in respect of all transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity needs not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

5. TURNOVER

Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts and service income from the provision of wood processing and construction services.

	2012	2011
	RMB'000	*RMB'000*
Revenue from trading of timber logs and lumbers	**48,493**	392,271
Revenue from sales of logs from harvesting activities	**46,610**	–
Revenue from provision of wood processing and construction services	**48,849**	–
	143,952	392,271

6. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income

	2012	2011
	RMB'000	*RMB'000*
Recovery of prepayment for forest acquisitions previously charged to profit or loss	**–**	20,000
Reversal of impairment loss on trade receivables (note below)	**15,050**	–
Reversal of impairment loss on prepayment for purchase of inventories (note below)	**3,365**	–
Reversal of impairment loss on other receivables (note below)	**3,000**	–
Government grants	**264**	684
Others	**1,885**	1,683
	23,564	22,367

Note:

During the year ended 31 December 2012, the Group recovered the debts from the debtors/supplier, hence the impairment loss of RMB15,050,000, RMB3,000,000 and RMB3,365,000 on trade receivables, other receivables and prepayment for purchase of inventories was reversed respectively.

b) Other operating expenses

The other operating expenses include the following:

	2012	2011
	RMB'000	*RMB'000*
Auditor's remuneration		
– audit services	**3,213**	3,496
– non-audit services	**1,056**	–
	4,269	3,496
Fair value loss on financial assets at fair value through profit or loss	**8,184**	9,432
Loss on disposal of property, plant and equipment	**403**	1,528

7. NET FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Finance income		
Interest income earned from deposits with banks	**3,071**	11,627
Total interest income on financial assets not at fair value through profit or loss	**3,071**	11,627
Interest income from financial assets at fair value through profit or loss	**11,519**	3,853
	14,590	15,480
Finance expenses		
Interest on senior notes wholly repayable within five years	**(122,017)**	(144,398)
Interest on short-term bank loans wholly repayable within five years	**(2,809)**	–
Other interest	**(525)**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**(125,351)**	(144,398)
Loss on redemption of interest-bearing borrowings	**–**	(23,020)
Change in fair value of derivative financial instruments	**–**	(9,507)
Others	**(172)**	(98)
	(125,523)	(177,023)
Net finance costs	**(110,933)**	(161,543)

8. STAFF COSTS

	2012	2011
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**41,401**	28,216
Contributions to defined contribution retirement schemes	**4,190**	2,910
Equity-settled share-based payment expenses	**2,288**	8,361
Total (including directors' emoluments)	**47,879**	39,487
Less: staff costs capitalised into work in progress	**(2,017)**	–
	45,862	39,487

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% (2011: 20%) of the standard wages determined by the relevant authorities during the year ended 31 December 2012. 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$25,000 (HK$20,000 prior to June 2012). 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.

9. INCOME TAX

Income tax in the consolidated income statement represents:

	2012	2011
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**9,305**	62,184
Under-provision in respect of prior years		
PRC enterprise income tax	**–**	9
Total	**9,305**	62,193

Notes:

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 these jurisdictions.

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 years ended 31 December 2012 and 2011.

c) Under the PRC tax law, the Enterprise Income Tax rate of the PRC was 25% for the year ended 31 December 2012 (2011: 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.

10. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2012 is based on the loss attributable to owners of the Company of RMB1,180,302,000 (2011: RMB4,190,657,000) and the weighted average number of 3,060,452,000 (2011: 3,060,452,000) ordinary shares in issue during the year.

Diluted loss per share

The diluted loss per share for the year ended 31 December 2012 and 2011 is the same as the basic loss per share as the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options since the exercise price of the share options exceeded the average market price of ordinary shares during the year.

11. DIVIDENDS

i) Dividends payable to owners of the Company attributable to the year

	2012	2011
	RMB'000	*RMB'000*
Special dividend proposed after the end of the reporting period of HK$2.54 cents per ordinary share	**–**	63,509

ii) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year

	2012	2011
	RMB'000	*RMB'000*
Special dividend in respect of the previous financial year, approved and paid during the year, of HK$2.54 cents per ordinary share	**63,175**	–

iii) The Board does not recommend the payment of dividends attributable to the year ended 31 December 2012.

12. SEGMENT INFORMATION

The Group manages its business by divisions which are organised from the product perspective.

Operating segments are identified on the basis of internal reports which provide information about components of the Group. These information are reported to and reviewed by the board of directors, being the chief operating decision-maker ("CODM") for the purposes of resources allocation and performance assessment. The Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

Sales between segments are carried out at mutually agreed terms.

Forestry management — this segment is engaged in forestry management in the PRC.

Trading operation — this segment is engaged in trading of timber logs and lumbers in the PRC.

Wood processing and construction — this segment is engaged in the provision of wood processing and construction of wood-frame houses in the PRC.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2012

	Forestry management *RMB'000*	**Trading operation** *RMB'000*	**Wood processing and construction** *RMB'000*	**Total** *RMB'000*
SEGMENT REVENUE				
Revenue from external customers	**46,610**	**48,493**	**48,849**	**143,952**
Inter-segment revenue	**–**	**13,320**	**–**	**13,320**
Reportable segment revenue	**46,610**	**61,813**	**48,849**	**157,272**
Less: inter-segment revenue				**(13,320)**
Consolidated revenue				**143,952**
Segment loss	**(956,721)**	**(6,414)**	**(37,931)**	**(1,001,066)**
Unallocated finance income				**12,055**
Unallocated interest expenses				**(125,523)**
Unallocated other operating income				**830**
Unallocated corporate expenses				**(55,550)**
Fair value loss on financial assets at fair value through profit or loss				**(8,184)**
Loss before taxation				**(1,177,438)**

For the year ended 31 December 2011

	Forestry management *RMB'000*	Trading operation *RMB'000*	Wood processing and construction *RMB'000*	Total *RMB'000*
SEGMENT REVENUE				
Revenue from external customers	–	392,271	–	392,271
Segment loss	(3,428,291)	(457,485)	–	(3,885,776)
Unallocated finance income				4,992
Unallocated interest expenses				(144,496)
Unallocated other operating income				873
Unallocated corporate expenses				(62,098)
Loss on fair value changes in derivative financial instruments				(9,507)
Fair value loss on financial assets at fair value through profit or loss				(9,432)
Loss on redemption of interest-bearing borrowings				(23,020)
Loss before taxation				(4,128,464)

There were no inter-segment sales during the year ended 31 December 2011.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment loss represents the loss from each segment without allocation of unallocated finance income, unallocated interest expenses, unallocated other operating income, unallocated corporate expenses, loss on fair value changes in derivative financial instruments, fair value loss on financial assets at fair value through profit or loss and loss on redemption of interest-bearing borrowings. This is the measure reported to CODM of the Company for the purposes of resources allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets

	2012 ***RMB'000***	2011 *RMB'000*
Assets		
Forestry management	**2,566,440**	3,328,002
Trading operation	**172,773**	728,395
Wood processing and construction	**264,008**	–
Total segment assets	**3,003,221**	4,056,397
Deferred tax assets	**3,642**	–
Loan receivable	**50,000**	–
Financial assets at fair value through profit or loss	**66,560**	54,676
Unallocated corporate assets	**122,532**	250,275
Consolidated assets	**3,245,955**	4,361,348

Segment liabilities

	2012 *RMB'000*	2011 *RMB'000*
Liabilities		
Forestry management	**537,766**	498,099
Trading operation	**17,930**	82,695
Wood processing and construction	**17,652**	–
Total segment liabilities	**573,348**	580,794
Interest-bearing borrowings	**1,176,989**	1,124,833
Current income tax payable	**71,385**	62,122
Unallocated corporate liabilities	**47,279**	34,026
Consolidated liabilities	**1,869,001**	1,801,775

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to operating segments other than deferred tax assets, loan receivable, financial assets at fair value through profit or loss and unallocated corporate assets; and

– all liabilities are allocated to operating segments other than interest-bearing borrowings, current income tax payable and unallocated corporate liabilities.

Other segment information

	Forestry management *RMB'000*	**Trading operation** *RMB'000*	**Wood processing and construction** *RMB'000*	**Unallocated** *RMB'000*	**Consolidated** *RMB'000*
For the year ended 31 December 2012					
Changes in fair value of plantation assets less costs to sell and other reconciling items	**858,230**	**–**	**–**	**–**	**858,230**
Other operating income	**7**	**22,652**	**75**	**830**	**23,564**
Finance income	**2,095**	**405**	**35**	**12,055**	**14,590**
Depreciation of property, plant and equipment	**1,758**	**593**	**6,966**	**2,969**	**12,286**
Impairment loss on trade receivables	**–**	**7,581**	**–**	**–**	**7,581**
Impairment loss on other receivables	**–**	**–**	**–**	**935**	**935**
Impairment loss on lease prepayments	**–**	**–**	**3,876**	**–**	**3,876**
Impairment loss on prepayment for purchase of inventories	**–**	**13,000**	**–**	**–**	**13,000**
Write-down/(reverse of write-down) of inventories	**65,401**	**(9,112)**	**9**	**–**	**56,298**
Amortisation of lease prepayments	**9,240**	**–**	**439**	**–**	**9,679**
Additions of property, plant and equipment	**2,054**	**1,487**	**135,966**	**1,562**	**141,069**
Additions of lease prepayments	**–**	**–**	**34,041**	**–**	**34,041**
Additions of deposit for construction of a property	**–**	**–**	**6,212**	**–**	**6,212**
Additions of prepayment for forest acquisition	**27,050**	**–**	**–**	**–**	**27,050**

	Forestry management *RMB'000*	Trading operation *RMB'000*	Wood processing and construction *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
For the year ended 31 December 2011					
Changes in fair value of plantation assets less costs to sell and other reconciling items	2,891,916	–	–	–	2,891,916
Other operating income	21,368	126	–	873	22,367
Finance income	9,580	908	–	4,992	15,480
Depreciation of property, plant and equipment	870	672	–	3,186	4,728
Impairment loss on trade receivables	–	122,699	–	–	122,699
Impairment loss on other receivables	–	3,800	–	–	3,800
Impairment loss on lease prepayments	79,695	–	–	–	79,695
Write-down of inventories	–	120,070	–	–	120,070
Impairment loss on prepayment for purchase of inventories	–	125,562	–	–	125,562
Impairment loss on prepayment for forest acquisition	383,484	–	–	–	383,484
Amortisation of lease prepayments	9,019	–	–	–	9,019
Additions of property, plant and equipment	1,784	3,658	–	3,362	8,804
Additions of lease prepayments	10,480	–	–	–	10,480
Additions of plantation assets	300,000	–	–	–	300,000

Geographical information

The Group's revenue from external customers is derived solely from its operations in the PRC and all material non-current assets of the Group are located in the PRC. Accordingly, no disclosure of geographical information is provided.

Information about major customers

Revenue from customers contributing 10% or more of the total revenue of the Group are as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Customer A – revenue from sales of timber logs and lumbers from trading operation	**–**	71,588
Customer B – revenue from sales of timber logs and lumbers from trading operation	**–**	61,758
Customer C – revenue from sales of timber logs from forestry management	**31,077**	–
Customer D – revenue from wood processing and construction	**29,424**	–

13. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade and bills receivable (net of allowance for doubtful debts) with the following analysis by age presented based on the date of recognition of sales as of the end of the reporting period:

	2012	2011
	RMB'000	*RMB'000*
0 – 90 days	**20,565**	19,500
91-180 days	**2,308**	–
	22,873	19,500

Trade and bills receivable are due within 10 days to 30 days from the date of delivery of goods.

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following age analysis based on the date of receipt of goods as at the end of the reporting period:

	2012	2011
	RMB'000	*RMB'000*
Within 1 month or on demand	**2,729**	546
After 1 month but within 3 months	**2,654**	–
After 3 months but within 6 months	**287**	5,293
After 6 months but within 1 year	**61**	–
After 1 year	**5,120**	–
	10,851	5,839

15. PLEDGE OF ASSETS

The Company has pledged its shares held in certain subsidiaries (the "Subsidiaries"), having a total carrying amount of approximately RMB2,235,103,000 (2011: RMB2,479,992,000) to secure the issue of senior notes of RMB1,106,989,000 (2011: RMB1,124,833,000). The Subsidiaries are investment holding companies holding all the shares of other subsidiaries of the Group in the PRC. In addition, the Group has pledged the Group's plantation assets and lease prepayments of RMB47,271,000 and RMB6,552,000 respectively to secure the short-term bank loans of RMB40,000,000 (2011: Nil).

Furthermore, the Group's bank deposits of RMB7,300,000 and RMB3,400,000 were pledged for banking facilities granted to a PRC entity unrelated to the Group and a wholly-owned subsidiary of the Group respectively. The pledged bank deposits will be released upon the settlement of relevant bank loans.

16. CONTINGENT LIABILITIES

a) On 16 January 2012, Guizhou Wosen entered into an agreement (the "Sale Agreement") with a customer (the "Customer") for the sales of RMB12,000,000 worth of timber logs to the Customer. Pursuant to a supplementary agreement dated 18 January 2012, Guizhou Wosen agreed to provide a guarantee for the Customer for it to obtain a bank loan of RMB11,000,000 for a period of one year. Under the terms of the supplementary agreement, (i) the amount of RMB8,000,000 drawn under the bank loan facility was advanced to Guizhou Wosen as advance payment under the terms of the Sale Agreement and the balance of RMB3,000,000 was utilised by the Customer and (ii) Guizhou Wosen shall bear the interest expenses relating to the advance payment of RMB8,000,000 less of the amount of logs supplied to the Customer from time to time. Because the Group is still conducting quality survey in the forests in Guizhou, Guizhou Wosen did not commence harvesting activities and therefore no timber logs were delivered to the Customer under the Sale Agreement. The bank loan was due for repayment on 14 March 2013. However, the Customer did not make any repayment upon maturity on 18 March 2013. Guizhou Wosen made a repayment of RMB8,000,000 on behalf of the Customer to the bank as return of the advance payment to the Customer. In this regard, the directors considered that the Group's liabilities under the guarantee was approximately RMB3,000,000 as at 31 December 2012 and financial guarantee liability has been made in these consolidated financial statements. Up to the date of approval of these consolidated financial statements, Guizhou Wosen did not receive any demand from the bank for repayment of the remaining outstanding bank loan of RMB3,000,000 under the guarantee.

b) During the year, the PRC tax authority conducted a tax investigation on a subsidiary in the PRC. Up to the date of approval of these consolidated financial statements, the PRC tax authority is still reviewing the case and no final decision is reached. In the opinion of the directors, the subsidiary has sufficient tax losses to cover the tax liabilities, if any, as a result of the investigation. Therefore, the directors consider that no provision is necessary to be made in these consolidated financial statements.

c) At the end of the reporting period, a bank deposit of RMB7,300,000 of a subsidiary was pledged to a bank as security for the banking facilities of US$1,000,000 (equivalent to RMB6,220,000) granted to a PRC entity (the "Borrower") unrelated to the Group. In return, the shareholder of the Borrower pledged its 50% shareholding interest in the Borrower as a counter guarantee to the Group.

17. EVENTS AFTER THE END OF THE REPORTING PERIOD

a) On 18 March 2013, the Group repaid RMB8,000,000 to the Customer as mentioned in note 16(a) above.

b) During the year ended 31 December 2012, Chengdu Yishang, a wholly-owned subsidiary, entered into two agreements to borrow bank loans of RMB30,000,000 from a PRC bank for a period of one year. On 12 March 2013, Chengdu Yishang repaid the outstanding bank loans of RMB30,000,000. On 13 March 2013, Chengdu Yishang borrowed a new bank loan of RMB30,000,000 which is bearing interest at 7.216% per annum and secured by the Group's plantation assets and lease prepayments of aggregate carrying amounts of RMB47,271,000 and RMB6,552,000 respectively.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the external auditors of the Company:

"BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation – books and records of subsidiaries

As disclosed in note 19(b) to the consolidated financial statements, during the audit process in respect of the financial year ended 31 December 2010, irregularities have been reported by the predecessor auditor of the Company. As a result, an independent board committee was formed to conduct an investigation. The investigation was completed in April 2012. Based on the findings of the investigation, the directors understood that a wholly-owned subsidiary in Yunnan, Kunming Ultra Big Forestry Resources Development Co., Ltd ("Kunming Ultra Big") maintained more than one set of accounting records prior to 2011. Certain members of the accounting and finance team and resource management department had not reported for work since mid-February 2011 and since then they were not contactable. The current management were unable to locate the books and records and related supporting documents maintained at the local office of Kunming Ultra Big prior to 2011. Accordingly, the directors have not been able to obtain sufficient documentary evidences to satisfy themselves regarding the completeness and accuracy of the books and records of Kunming Ultra Big brought forward from previous years which might affect the consolidated financial statements for the years ended 31 December 2012 and 2011.

As disclosed in note 19(c) to the consolidated financial statements, discrepancies were identified between the accounting records of a wholly-owned subsidiary, Manzhouli Yishang Forest Resource Development Co., Ltd. ("Manzhouli Yishang") and the personal bank accounts of its general manager and certain officers which were utilized to collect sales proceeds from customers and made payments to suppliers during the year ended 31 December 2011. Discrepancies were also identified between the PRC audited financial statements of Manzhouli Yishang which were submitted to the PRC tax authority and the financial information as consolidated in the consolidated financial statements for the year ended 31 December 2011. In addition, as certain supporting documentary evidences were missing, we were unable to carry out satisfactory procedures to obtain reasonable assurance regarding the completeness, accuracy, existence, valuation, classification and disclosures of the transactions undertaken by Manzhouli Yishang during the year ended 31 December 2011 and the related balances as detailed in note 19(c) to the consolidated financial statements. Due to the circumstance as stated, we were unable to obtain sufficient appropriate audit evidence to ascertain whether the financial information of Manzhouli Yishang included in the consolidated financial statements as at and for the year ended 31 December 2011 has been properly prepared in accordance with IFRSs.

As a result of the circumstance described above, we were unable to obtain sufficient appropriate audit evidence to determine whether the recorded balances as at 31 December 2012 and 2011 and transactions of Kunming Ultra Big and Manzhouli Yishang for the year ended 31 December 2011 are free from material misstatements.

Any adjustments that might have been found to be necessary in respect of the above matters would have a significant effect on the Group's retained profits as at 1 January 2011 and 31 December 2011 and the accumulated losses as of 31 December 2012 and 2011, the state of Group's affairs as at 31 December 2012 and 2011 and 1 January 2011, and of its loss for the years ended 31 December 2012 and 2011 and the related disclosures thereof in the consolidated financial statements. Our audit opinion on the consolidated financial statements for the year ended 31 December 2011 was disclaimed accordingly.

2. Scope limitation – plantation assets, lease prepayments and payables for forest acquisition

a) As disclosed in note 18 to the consolidated financial statements, the Group held approximately 121,000 hectares of forests in Yunnan, the People's Republic of China (the "PRC") according to the confirmations from the respective Yunnan forest bureaus (the "2011 Confirmations") and the PRC legal opinion obtained in April 2012. Up to the date of this report, the Group obtained forestry ownership certificates for approximately 76,000 hectares of forests. The Yunnan forest bureaus directed the Company to rely on the 2011 Confirmations and did not issue new confirmations to confirm the ownership of the remaining approximately 45,000 hectares of forests as at 31 December 2012 for which forestry ownership certificates have not yet been obtained. As a consequence, we were unable to obtain sufficient appropriate audit evidence to ascertain the ownership of these 45,000 hectares of forests with an aggregate carrying amount of RMB811,000,000 included in the plantations assets of RMB1,288,300,000 and the related lease prepayments of RMB81,874,000 included in the lease prepayments of RMB201,406,000 as mentioned in paragraph (b) below as at 31 December 2012.

b) As disclosed in notes 17 and 18 to the consolidated financial statements, the purchase consideration of the Group's forests in Yunnan covering an area of approximately 121,000 hectares was allocated between lease prepayments and plantation assets as estimated by the directors. As at 31 December 2012, an independent professional valuer was engaged to perform a valuation on the Group's plantations assets. The fair value of the plantation assets in Yunnan as at 31 December 2012 of RMB1,288,300,000, being arrived at on a fair value less costs to sell basis, was adopted by the directors. However, due to insufficient information relating to stocked area, species composition, yield and other necessary information for the purpose of the valuation, the professional valuer was unable to give an unqualified opinion on the valuation. The carrying amount of the lease prepayments of RMB201,406,000 as at 31 December 2012 and RMB209,477,000 as at 31 December 2011 was brought forward from 2009.

Given the fact that the books and records relating to the acquisition of these assets were incomplete or missing, that the valuation on the plantation assets was not unqualified and that no valuation was undertaken on the lease prepayments on the dates of acquisition, we were unable to obtain sufficient appropriate audit evidence to ascertain the accuracy of the carrying amounts of these assets as at 31 December 2012 and the amounts of approximately RMB858,230,000 charged to profit or loss as changes in fair value of plantation assets less costs to sell.

Our audit opinion on the Group's financial statements for the year ended 31 December 2011 was also disclaimed because the books and records relating to the acquisition of these assets were incomplete or missing, the valuation on the plantation assets was not unqualified, no valuation was undertaken on the lease prepayments on the dates of acquisition and we were unable to ascertain the accuracy of the carrying amounts of these assets as at 31 December 2011 and the amounts charged to profit or loss of approximately RMB2,200,000,000 as changes in fair value of plantation assets less costs to sell and other reconciling items and of approximately RMB73,610,000 as impairment loss on lease prepayments in respect of approximately 96,000 hectares of forests in Yunnan for which confirmation of title has not yet been obtained.

c) As disclosed in note 29(b) to the consolidated financial statements, there were payables for forest acquisition of RMB641,454,000 as at 31 December 2010. The payables for forest acquisition represent considerations to be settled for the acquisition of forests in Yunnan. Due to the lost of certain books and records of Kunming Ultra Big prior to 2011, the amounts of the payables were estimated by the directors by reference to the forests held and the estimated market price. The Group made aggregate payments in 2012 and 2011 of RMB12,519,000 and RMB598,653,000 respectively to settle part of the estimated outstanding consideration payable brought forward from 2010. The remaining outstanding estimated balance payable of RMB30,282,000 and RMB42,801,000 was included in the total amount of payables for forest acquisition of RMB56,534,000 and RMB95,201,000 as at 31 December 2012 and 2011 respectively.

As the books and records relating to the acquisition of these assets were incomplete or missing and that the areas of the forests were estimated by the directors in the absence of appropriate forestry ownership certificates or confirmations from the respective forest bureaus, we were unable to obtain sufficient appropriate audit evidence to ascertain the accuracy and completeness of payables for forest acquisition as at 31 December 2012 and 2011 and the appropriateness and validity of payments made to settle part of the estimated outstanding consideration payable during the years ended 31 December 2012 and 2011. Our audit opinion on the Group's financial statements for the year ended 31 December 2011 was also disclaimed accordingly.

d) As disclosed in note 35(a) to the consolidated financial statements, the directors assessed that the Group has accounted for all the payables for forest acquisition as at 31 December 2012 and 2011 and there were no capital commitments outstanding in respect of contracts signed in previous years for forest acquisition. Given that the books and records prior to 2011 were incomplete and there were no sufficient documentary evidences to support the assessment made by the directors, we were unable to obtain sufficient appropriate audit evidence to ascertain the amount of capital commitments for forest acquisition contracts signed in previous years, and the completeness of the related disclosures in the consolidated financial statements. Our audit opinion on the Group's financial statements for the year ended 31 December 2011 was also disclaimed accordingly.

There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the plantation assets, lease prepayments and payables for forest acquisition as at 31 December 2012 and 2011 and the changes in fair value of plantation assets less costs to sell during the years ended 31 December 2012 and 2011 and the impairment of lease prepayment for the year ended 31 December 2011 were free from material misstatement and as to the completeness of the disclosure of capital commitments at 31 December 2012 and 2011.

3. Scope limitation – prepayments for purchase of inventories

As disclosed in notes 22 and 22(b) to the consolidated financial statements, a subsidiary entered into three purchase contracts with three entities for the purchase of timber logs in January 2011. Based on the purchase contracts, the Group made payments of RMB171,000,000 to the three entities as prepayments for the purchase of timber logs between 24 January 2011 to 2 March 2011. Subsequent to the payments, the Group received logs amounting to RMB47,895,000 (including value-added tax) from the three entities out of which RMB20,131,000 were sold to a customer as discussed in paragraph 4 below. The balance of RMB22,254,000 was included in inventories but were assessed by a professional valuer to be of no commercial value as at 31 December 2011 and therefore these inventories were fully written-down. According to the purchase contracts, the three entities shall refund the balance of prepayments to the Group for which no delivery of logs took place upon expiry of the contracts which was agreed to be in June and July 2011. However, no refund was received by the Group up to the date of approval of the consolidated financial statements for the year ended 31 December 2011. As a result, an amount of RMB90,362,000 prepaid to the three entities together with the balance of RMB35,200,000 brought forward from the previous year totaling RMB125,562,000 which were considered not recoverable and were fully impaired and charged to the profit or loss for the year ended 31 December 2011. The general manager of the subsidiary who executed the purchase contracts resigned and left the subsidiary. The directors were considering taking appropriate actions including possible legal proceedings against these entities to recover the outstanding balances together with compensation.

Given the above circumstances and the fact that there is no information available for us to assess the financial position of the three entities, we were unable to obtain sufficient appropriate audit evidence relating to the validity of the payments made under these transactions and to ascertain the recoverability of the prepayments. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to the appropriateness and accuracy of the impairment of the prepayments for the purchase of inventories for the year ended 31 December 2011 and the carrying value of the remaining balance of prepayment for the purchase of inventories of RMB32,743,000 as included in the total prepayments for the purchases of inventories as disclosed in note 22 to the consolidated financial statements for the year ended 31 December 2011. Our audit opinion on the Group's consolidated financial statements for the year ended 31 December 2011 was disclaimed accordingly. Our opinion on the Group's financial statements for the year ended 31 December 2012 is also disclaimed because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

4. Scope limitation – sales and trade receivables

The Group was engaged in the trading of timber logs and lumbers principally through Kunming Ultra Big during the year ended 31 December 2011 with various third parties which are entities and individuals in the PRC. During the year ended 31 December 2011, the Group generated revenue of RMB240,125,000 from sales to certain customers and the balance of trade receivables as at 31 December 2011 amounted to approximately RMB122,699,000. Since the trade receivables were overdue and no settlement was received up to the date of approval of the consolidated financial statements for the year ended 31 December 2011, the directors considered that the trade receivables were not recoverable and therefore full impairment was charged to profit or loss in 2011.

Following the results of the investigation as set out in note 19(b) to the consolidated financial statements, it was discovered that certain books and records of Kunming Ultra Big were missing and therefore we are unable to ascertain the completeness of transactions, cash or otherwise, during the period from 1 January 2011 to 14 February 2011.

We were unable to obtain sufficient appropriate audit evidence to ascertain the existence and accuracy of the sales transactions and the appropriateness of making provision for the impairment of trade receivables because (i) there was inadequate documentary evidences available for us to verify the receipt of goods by and settlements from customers; (ii) there was no satisfactory information provided to us to explain the reasons for the balances being outstanding and overdue; (iii) we were unable to carry out effective confirmation procedures in relation to the sales transactions and balances receivable for the purpose of our audit; (iv) there is no information available for us to assess the financial position of the customers and (v) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the sales transactions and impairment of trade receivables were free from material misstatement. Our audit opinion on the Group's consolidated financial statements for the year ended 31 December 2011 was disclaimed accordingly. Our opinion on the Group's financial statements for the year ended 31 December 2012 is also disclaimed because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

5. Scope limitation – value added tax and other tax levies payable and current income tax payable

The Group transferred certain forests between two wholly-owned subsidiaries within the Group during the year ended 31 December 2012. According to the PRC tax regulations, the transfer was subject to PRC enterprise income tax and business tax. However, as there is insufficient information to ascertain the fair value of the plantation assets at the dates of transfer, the Group is unable to estimate the tax liabilities arising from the transfer of the plantation assets between the subsidiaries. In the absence of sufficient information to ascertain the fair value of the plantation assets being transferred, we are unable to ascertain the tax liabilities arising from the transfer of plantation assets between the subsidiaries of the Group.

As stated in the consolidated statement of financial position and disclosed in note 29 to the consolidated financial statements, the Group recorded current income tax payable of RMB71,385,000 and RMB62,122,000 and value added tax and other tax levies payable of RMB466,008,000 and RMB461,046,000 respectively as at 31 December 2012 and 2011. The value added tax and other tax levies balances as at 31 December 2012 and 2011 included an amount of RMB380,640,000 which was brought forward from 2010. As the books and records in 2010 were incomplete or missing, we were unable to obtain sufficient appropriate audit evidence to ascertain the accuracy of the related taxes payable. In addition, the current income tax payable as at 31 December 2012 and 2011 included a balance of RMB62,122,000 relating to the sales transactions occurred in 2011 which were not supported by sufficient documentary evidences. As a result, we were unable to ascertain the accuracy of the related income tax payable as at those dates. There were no other practical alternative audit procedures that we could perform to satisfy ourselves as to the completeness and accuracy of the value added tax and other tax levies payable of RMB466,008,000 and RMB461,046,000 and the current income tax payable of RMB71,385,000 and RMB62,122,000 as at 31 December 2012 and 2011, the income tax of RMB62,193,000 and value added tax and other tax levies of RMB90,078,000 charged to profit or loss for the year ended 31 December 2011.

Our audit opinion on the Group's financial statements for the year ended 31 December 2011 was also disclaimed accordingly.

6. **Scope limitation – impairment of prepayment for forest acquisition, plantation assets and lease prepayments**

As described in note 20(b) to the consolidated financial statements, the Group made payments of RMB413,911,000 to two entities controlled by the former general manager of a subsidiary in 2010 and classified an amount of RMB383,484,000 paid as prepayment for forest acquisition in the consolidated financial statements in 2010. According to the findings of the investigation as more detailed in note 19(b), the payments were authorised by the former chief executive officer and executive director Mr. Li Han Chun who was removed by the board of directors from the positions of chief executive officier and executive director on 14 February 2011 and 17 February 2012 respectively. Subsequent to the payments, certain forestry ownership certificates were provided to the Group and therefore RMB24,342,000 and RMB6,085,000 were classified as plantation assets and lease prepayments respectively during the year ended 31 December 2010. The fair value less costs to sell of the plantation assets increased to RMB34,000,000 as at 31 December 2010. The details of the plantation assets and lease prepayments are described in note 18(c) and note 17(e) to the consolidated financial statements respectively.

During the year ended 31 December 2011 and up to the date of approval of the financial statements for the year ended 31 December 2011, there were no further forestry ownership certificates provided by the two entities. The Group engaged a PRC lawyer to take legal actions against the two entities. According to the investigation, the directors believe that the forestry ownership certificates previously provided by the two entities are falsified copies. In April 2012, the Group reported the case to the PRC police. In view of the discovery of the falsified forestry ownership certificates and the uncertainty in recovering the payments from the two entities and to obtain legal title to these forests, the related plantation assets with an aggregate carrying amount of RMB34,000,000 was charged to the profit or loss in 2011 as changes in fair value of plantation assets less costs to sell and other reconciling items and the related lease prepayments with an aggregate carrying amount of RMB6,085,000 and the prepayment made to the two entities for forest acquisition of RMB383,484,000 were fully impaired.

However, there is no information available for us to assess the financial position of the two entities. Due to the uncertainty of the outcome of the legal actions taken against the two entities, we were unable to obtain sufficient appropriate audit evidence to ascertain the recoverability of the prepayments as well as the appropriateness of full impairment in the year ended 31 December 2011. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to the appropriateness and accuracy of the amount charged to profit or loss as changes in fair value of plantation assets less costs to sell and other reconciling items and the impairment of lease prepayments and the prepayments made to the two entities for forest acquisition for the year ended 31 December 2011. Our audit opinion on the Group's consolidated financial statements for the year ended 31 December 2011 was disclaimed accordingly. Our opinion on the Group's financial statements for the year ended 31 December 2012 is also disclaimed because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

7. Scope limitation – inventories

As disclosed in note 21 to the consolidated financial statements, legal title to inventories with an aggregate carrying amount of RMB13,110,000 and RMB76,160,000 as at 31 December 2012 and 2011 brought forward respectively from 2010 were not supported by sufficient documentary evidences. Of these, inventories of RMB49,350,000 were brought forward from previous years and placed with a former customer of the Group as at 31 December 2012. During the year ended 31 December 2012, the Group took actions to follow up with the former customer for repayment. However, the former customer refused to make any repayment and refused the Group gaining access to the inventories during the year-end stock-taking for 2012. Although the former customer cooperated to arrange for the stock-taking in late April 2013, the results are still not satisfactory. The directors are confident that the Group will get back the inventories. However, the quality of these inventories may have deteriorated. Therefore, a write-down of RMB41,350,000 was made on these inventories in profit or loss.

In the absence of satisfactory appropriate documentary evidences and because of the fact that the books and records in the previous years were incomplete or missing, we were unable to obtain sufficient appropriate audit evidence to verify the ownership of these inventories. In addition, due to the unsatisfactory results of the subsequent stock-taking, we were unable to verify the existence of these inventories or to determine whether the write-down of RMB41,350,000 is appropriate and to ascertain the accuracy of the remaining carrying amount of RMB8,000,000 as at 31 December 2012. There were no alternative audit procedures that we could perform to satisfy ourselves as to the existence of these inventories, whether the Group has title to these inventories and whether any adjustment is required to be made to the carrying amounts of the inventories as at 31 December 2012 and 2011 and whether the write-down of RMB41,350,000 for the year ended 31 December 2012 is appropriate. Our audit opinion on the Group's financial statements for the year ended 31 December 2011 was also disclaimed because the legal titles to the inventories were not supported by sufficient documentary evidences.

8. Prepayment for forest acquisition

As disclosed in note 20(a) to the consolidated financial statements, the Group entered into a number of agreements and made prepayments of RMB49,787,000 as at 31 December 2012 to purchase forests in Guizhou Province, the PRC. The Group obtained certain forestry ownership certificates for these forests and started to carry out physical inspection and preliminary work on the forests during the year. However, the Group was not satisfied with the quality of trees in the forests and negotiated with the sellers for a price reduction and refund. Up to the date of approval of these consolidated financial statements, the Group is still in the process of assessing its claim. However, no professional valuation on the forests was made. The Group would return the forestry ownership certificates to the sellers and recover the prepayments for forests acquisition if the quality of the forests is not acceptable upon completion of the physical inspection. In the absence of such professional valuation and the fact that the physical inspection has yet to be completed and that there were insufficient documentary evidences to verify the financial ability of the sellers to settle the Group's claim, we were unable to ascertain the recoverability of the prepayment for forest acquisition. There were no alternative audit procedures that we could perform to satisfy ourselves as to the carrying amounts of the prepayment for forest acquisition or to determine whether any provision for impairment loss is necessary as at December 2012.

9. **Scope limitation – interests in subsidiaries**

Included in the Company's statement of financial position are interests in subsidiaries of RMB2,235,103,000 and RMB2,479,992,000 as at 31 December 2012 and 2011 respectively. Due to the scope limitations as detailed in paragraphs 2 to 8 above, we are unable to satisfy ourselves as to the fairness of the amounts carried as interests in subsidiaries in the Company's financial statements or to determine whether any provision for impairment loss is necessary as at 31 December 2012 and 2011. Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the net assets of the Company as at 31 December 2012 and 2011 and of its net loss for the years then ended and the related disclosures in the consolidated financial statements. Our audit opinion on the Group's financial statements for the year ended 31 December 2011 was also disclaimed accordingly.

Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the net assets of the Group as at 31 December 2012 and 2011 and of its net loss and cash flows for the years then ended and the related disclosures in the consolidated financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we are unable 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. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTERS

We draw attention to note 2 to the consolidated financial statements which indicate that the Group incurred loss attributable to owners of the Company of RMB1,180,302,000 and net cash outflow from operating activities of RMB98,291,000 for the year ended 31 December 2012 and the Group had net current liabilities of RMB71,580,000 and net debt of RMB770,413,000 as at 31 December 2012. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the ability of the Group and the Company to attain profitable and positive cash flows from operations. These conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern."

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

For the year ended 31 December 2012, the Group's revenue was approximately RMB143.9 million (2011: RMB392.3 million), representing a decrease of 63.3% compared to last year.

Wood Trading Activities

During 2012, the Group has sold approximately 49,100 cubic meters of wood logs from wood trading activities, mainly from Manzhouli, Yichun and Yunnan region. Revenue from wood trading activities accounted for approximately RMB48.5 million (2011: 392.3 million), representing a decrease of 87.6% compared to last year.

Harvesting Activities

The Group resumed its harvesting activities in early 2012. Harvested and sold approximately 62,600 cubic meters wood logs from its owned forests in Sichuan and Yunnan region, accounted for approximately RMB46.6 million of revenue.

Wood Processing and Construction Services

Revenue generated from wood processing and construction services were mainly derived from the newly acquired subsidiary – Manzhouli Triple Success Co. Ltd. and Chengdu Yishang Forestry Resource Development Co. Ltd. respectively. During 2012, the Group processed approximately 26,900 cubic meter of logs, accounted for approximately RMB19.4 million of revenue. The Group will continue with its efforts in resources integration, liaising with suppliers and developing PRC and international clientele, with a view to ramping up production during 2013.

Cost of inventory sold

The cost of inventory sold for the year ended 31 December 2012 amounted to RMB159.1 million, which mainly represented the direct cost of harvesting activities, wood trading activities, wood processing and construction services.

Staff Cost

Staff cost increased from RMB39.5 million for the year ended 31 December 2011 to RMB45.9 million for the year ended 31 December 2012, which was mainly due to the increase in number of staff from 317 employees as at 31 December 2011 to 715 employees as at 31 December 2012, resulted from the acquisition of Manzhouli Triple Success Co. Ltd..

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 amounted to RMB858.2 million, which mainly represented the decrease in fair value of plantation assets less cost to sell for the year ended 31 December 2012 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 Yunnan province of the Group as at 31 December 2012. CFK has had to make subjective judgements as to the stocked area, species composition and yield of the forest based upon a high level inspection of a limited number of forest areas and discussion with the staff of the Group.

Impairment of lease prepayment

Impairment of lease prepayment amounted to RMB3.9 million, which was attributable to the impairment of industrial land located in Yunnan province.

Impairment of trade and other receivables

After assessed the recoverability of receivables, the Company believes it is unlikely to recover the trade receivables of RMB7.6 million and the other receivables of RMB0.9 million and has made recorded impairment of trade and other receivable accordingly. The Company will take all appropriate actions to recover the outstanding amounts.

Write down of Inventories

Physical stock take and inspection have been performed by the Group together with external professional parties in January 2013. The write down of inventories is technically determined with reference to the fair value less costs to sell as determined by external professional specialist and management's judgement. Write down of inventories amounted to RMB56.3 million for the year ended 31 December 2012, which was mainly due to the deterioration of quality of inventories as realized during the physical stock take in January 2013.

Impairment loss on prepayment for purchase of inventories

After assessed the recoverability of prepayment for purchase of inventories, the Company believes that it is unlikely to recover the amounted to RMB13.0 million. The Company will take appropriate actions to recover the outstanding amounts.

Other operating expenses

Other operating expense decreased from RMB78.4 million for the year ended 31 December 2011 to RMB35.5 million for the year ended 31 December 2012 mainly due to the decrease in deed tax provision.

Depreciation

Depreciation increased from RMB4.7 million for the year ended 31 December 2011 to RMB12.3 million for the year ended 31 December 2012 mainly due to the depreciation incurred from newly acquired subsidiary, Manzhouli Triple Success Company Limited in April 2012.

Foreign exchange loss

The decrease of foreign exchange loss from RMB37.4 million for the year ended 31 December 2011 to RMB3.1 million for the year ended 31 December 2012 mainly due to the stable exchange rate between RMB and USD during the period and the decrease in US Dollar denominated deposit, as part of the US Dollar denominated deposits has been converted to Renminbi deposits.

Income tax

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 timer log trading business, the Group is subject to the Corporate Income Tax at the standard rate of 25%.

Loss for the year

Loss for the year was approximately RMB1,186.7 million for the year ended 31 December 2012, representing a decrease of approximately RMB3,003.9 million as compared to the loss of approximately RMB4,190.6 million in 2011.

Business Review

In 2012, China Forestry continued to rebuild its business while taking steps to achieve the strategic goal of becoming a vertically-integrated forestry company with operations spanning the entire industry value chain. The Group progressively expanded its business from harvesting to also cover wood trading and processing, forestry technology development and wood-frame house construction.

During the year, China's economic growth continued to be held back by uncertainties in the global economy. According to the National Bureau of Statistics, China's GDP growth slowed to 7.8% in 2012, representing a 1.5-percentage point decline from the previous year. Demand for wood products was suppressed by a lackluster property sector.

Revenue generated in the year was mainly derived from the Group's harvesting and wood trading operations, as well as the wood processing business, which has already started to contribute revenue. The loss was mainly attributable to reduced levels of harvesting and wood trading activities, finance costs and higher operating expenses, including expenses related to the newly acquired wood processing business.

To strengthen its internal controls for the sake of sustainable future growth, the Group is in discussions with the external professionals to plan for the Third Phase Internal Control Review after the completion of both an independent investigation and the Internal Control Review of the Group in April 2012.

Wood Trading

The Group's wood trading business sold approximately 49,100 cubic metres of logs and generated RMB48.5 million in revenue for the year ended 31 December 2012, compared to approximately 340,000 cubic metres and RMB392.3 million, respectively, in the previous year. The significant decrease in revenue was mainly due to an anomaly in 2011 resulting from a total amount of RMB240 million realized on the liquidation of inventories authorized by former managements for the year ended 31 December 2011.

During the year, wood logs were mainly traded in Manzhouli, Yichun and Yunnan region. The Group's wood trading business is starting to achieve synergies with its wood processing operations as it exploits rich forestry resources from Russia for its high-end wood log supply.

Harvesting

In 2012, the Group gradually resumed its harvesting activities in Sichuan and Yunnan provinces, selling a total of approximately 62,600 cubic meters of logs and generating revenue of RMB46.6 million. Continuous effort has been made in rebuilding an accurate record system and forest management team to support the Group's harvesting activities.

Forest land reserves remain the cornerstone of the sustainable development of the Group. During the year, China Forestry continued to work with the relevant government authorities on the recovery of Forestry Ownership Certificates ("FOC") for its forest assets. As at 31 December 2012, the Group owned approximately 154,000 hectares of forest (of which 76,000 hectares with FOC and 45,000 hectares without FOC in Yunnan Province, and 33,000 hectares with FOC in Sichuan Province), with valued at approximately RMB2,033.9 million. The Group will continue to recover the FOC for the outstanding forests.

Wood Processing

In April 2012, the Group completed the acquisition of Manzhouli Triple Success Co. Ltd. ("Triple Success"), one of the largest high-end wood processing plants in Asia, located in Manzhouli in the Inner Mongolia Autonomous Region. The acquisition represents a major step downstream in the Group's implementation of its vertically-integrated business strategy.

For the first few months after the acquisition, the Group focused on reconstruction, training and enhancing the productivity of Triple Success. Efforts were made in resource integration, liaising with suppliers and developing PRC and international clientele, with a view to ramping up production in 2013.

Triple Success had an annual production capacity of 450,000 cubic metres of high-end wood products by the end of 2012. The Group plans to gradually develop Triple Success into a bulk processer of high-end wood products in northeastern China.

During 2012, Triple Success continued to export high-end wood products to Japan, where it enjoys strong brand recognition. The Group's wood processing business recorded total revenue of RMB19.4 million for the eight months in 2012 after the acquisition of Triple Success, which is starting to make an initial financial contribution.

Wood-frame House

In the first half of 2012, China Forestry strategically launched its wood-frame house manufacturing and construction business with the aim of accelerating the Group's downstream forestry operations.

The Group secured a wood-frame house project in Tangshan, Hebei Province with a total construction area of approximately 13,000 square metres. Completion of the project was originally slated for the second half of 2012 but was subsequently rescheduled to 2013.

In early 2012, China Forestry established an independent wood-frame house design and research center in Beijing that focuses on energy saving and environmentally friendly wood-frame house products. The Group has already secured intellectual property rights for several key technologies involving wood-frame house construction.

Prospects

China's economy is expected to grow steadily in 2013 against a backdrop of a stabilizing global economy. Demand for wood and wood products is expected to be steady and to support the Group's growth.

Looking into 2013, the Group will continue to adopt a prudent approach to implementing its vertically-integrated business strategy, which integrates the upstream, midstream, and downstream businesses in the forest industry chain.

The Group expects to increase its harvesting activities by exploiting high-quality forest land in Sichuan, Yunnan and Guizhou provinces. Meanwhile, the expansion plan of Triple Success is on track to ramp up production in 2013, which will in turn support the growth of the Group's wood trading business.

With the further expansion of reforms in the national forestry sector and afforestation, forestry has experienced rapid growth in China over the past decade. Recently, there has also been increased emphasis on the environment by the central government.

Mr. Hu Jintao, the former General Secretary of the Communist Party of China, said in his opening speech at the 18th CPC National Congress in November 2012 that the government should "reverse the trend of ecological deterioration and build a beautiful China." This marked the first time that the concept of "Beautiful China" has been written into the keynote report at the five-yearly congress.

The development of China's forestry industry is expected to benefit from more favorable government policies going forward. Leveraging the Group's vertically-integrated business model, China Forestry is optimistic about the future growth opportunities brought about by the rapidly developing forestry industry in China.

Dividend

The Board does not recommend a final dividend in respect of the year ended 31 December 2012 (2011: Nil).

Liquidity and Financial Resources

As of 31 December 2012, cash and bank balances was RMB406.5 million, representing a net decrease of RMB343.1 million as compared to the position as of 31 December 2011.

As at 31 December 2012, the Group had a cash and bank balance of approximately RMB406.5 million, of which approximately RMB196.8 millions, US$24.8 million and JPY6.4 million were maintained in the PRC and approximately HK$0.77 million, RMB33.5 million and US$2.5 million were maintained in Hong Kong.

Borrowing

As at 31 December 2012, the Group had the Senior Notes with an aggregate principal amount of US$180,000,000 outstanding, bearing interest at 10.25% per annum, and repayable on 17 November 2015.

At 31 December 2012, the bank loans amounted to RMB70 million bearing interests ranged form 5.6% to 7.216% per annum and are secured by a guarantee from a subsidiary and certain forestry ownership certificates of plantation assets in Sichuan with total carrying amount of approximately RMB47,271,000, repayable with one year.

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 2012.

At 31 December 2012, the bank loans amounted to RMB70 million bearing interests ranged form 5.6% to 7.216% per annum and are secured by a guarantee from a subsidiary and certain forestry ownership certificates of plantation assets in Sichuan and Yunnan with total carrying amount of approximately RMB47,271,000, repayable with one year.

Furthermore, the Group's bank deposits of RMB7,300,000 and RMB3,400,000 were pledged for banking facilities granted to a PRC entity unrelated to the Group and a wholly-owned subsidiary of the Group respectively.

Financial Instruments

The Group did not hold any financial instruments for hedging purposes for the two years ended 31 December 2011 and 2012.

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 2012 was 0.58 (2011: 0.41).

Employee and Remuneration Policy

As at 31 December 2012, the Group had a total of 715 employees (31 December 2011: 317 employees). For the year ended 31 December 2012, the staff cost (including directors' remuneration in the form of salaries and other benefits) was approximately RMB45.9 million (2011: RMB39.5 million).

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 2012, the Group, through its subsidiary, China Zhaoneng Group Limited, bought back an aggregate principal amount of US$6,500,000 of its Senior Notes due 2015.

CORPORATE GOVERNANCE

The Company has complied with the Code of Corporate Governance Practice as set out in Appendix 14 of the Listing Rules, except the deviations from the code provision A.2.1 and A.6.7.

Code Provision A.2.1

Under code provision A.2.1, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual.

During the period from 1 January 2012 to 14 April 2012, the roles of chairman and the acting chief executive officer were held separately by Mr. Li Kwok Cheong and Mr. Li Jian, respectively, and their roles and responsibilities were separate. Since the resignation of Mr. Li Jian from his position as the acting chief executive officer of the Company on 15 April 2012, Mr. Li Kwok Cheong has taken up the role of the chief executive officer of the Company. Nonetheless, the Board considered that the balance of power and authorities is ensured by the operation of the Board and the senior management. The Board currently comprises two executive Directors, three non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

Code Provision A.6.7

Under code provision A.6.7, independent non-executive Directors and non-executive Directors should attend general meetings of the Company. Mr. Li Kwok Cheong, Mr. Meng Fan Zhi and Mr. Liu Can have attended the meeting. Others were unable to attend the annual general meeting of the Company held on 15 June 2012 due to other business commitment.

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 of the Group, they confirmed that they have complied with the required standard of dealings as set out in the Model Code.

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.

REVIEW OF ANNUAL RESULTS

The audit committee of the Group currently comprises three independent non-executive directors, namely Ms. Hsu Wai Man, Helen (Chairlady of the Audit Committee), Mr. Liu Can and Dr. Liu Yong Ping. All members of the audit committee have reviewed the consolidated financial statements of the Group for the year ended 31 December 2012.

BOOK CLOSURE

In order to determine the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Friday, 21 June 2013 to Tuesday, 25 June 2013, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to attend and vote at the AGM is Monday, 24 June 2013. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on Tuesday, 25 June 2013, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 20 June 2013.

AGM

The AGM of the Company will be held in Beijing on Tuesday, 25 June 2013. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT

This annual result announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited at *www.hkexnews.hk* and the Company's website at *www.chinaforestryholding.com*.

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, 30 April 2013

As at the date of this announcement, the executive Directors of the Company are Mr. Li Kwok Cheong and Mr. Lin Pu, the non-executive Directors of the Company are Mr. Xiao Feng, Mr. Li Zhi Tong and Mr. Meng Fan Zhi, and the independent non-executive Directors of the Company are Mr. Liu Can, Dr. Liu Yong Ping and Ms. Hsu Wai Man, Helen.