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

2009 ANNUAL REPORT

Corporate Mission

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

This annual report is printed on environmental paper.

Designed and Printed: RR DONNELLEY ROMAN FINANCIAL

Contents

CHINA FORESTRY HOLDINGS CO., LTD.
2009 ANNUAL REPORT

Corporate Information

Board of Directors

Executive Directors

Mr. Li Kwok Cheong (Chairman)
Mr. Li Han Chun
(Chief Executive Officer)

Non-Executive Directors

Mr. Xiao Feng
Mr. Li Zhi Tong

Independent Non-Executive Directors

Mr. Wong Tak-jun
Mr. Wang Wei Ying
Mr. Liu Can

Audit Committee

Mr. Wong Tak-jun (Chairman)
Mr. Wang Wei Ying
Mr. Liu Can

Remuneration Committee

Mr. Wong Tak-jun (Chairman)
Mr. Wang Wei Ying
Mr. Xiao Feng

Nomination Committee

Mr. Li Han Chun (Chairman)
Mr. Wang Wei Ying
Mr. Liu Can

Company Secretary

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

Authorised Representatives

Mr. Li Han Chun

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

2301, 23rd Floor Tower B
Vantone Centre Jia 6 Chaowaidajie
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

Corporate Information

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

Compliance Adviser

Taifook Capital Limited
26/F New World Tower
16–18 Queen's Road Central
Hong Kong

Website Address

www.chinaforestryholding.com

Stock Code

00930

Share Information

Board lot size: 2,000

Four-Year Summary

(Expressed in Renminbi)

	2009	2008	2007	2006
Operating results				
Turnover	793,692,961	544,947,744	160,318,269	70,122,597
Result from operating activities	589,522,663	5,884,148,296	783,555,246	339,606,257
Net finance (costs)/income	(77,892,250)	(2,373,598)	174,094	149,624
Profit before income tax	511,630,413	5,881,774,698	783,729,340	339,755,881
Income tax expense	—	—	—	—
Profit for the year	511,630,413	5,881,774,698	783,729,340	339,755,881
Attributable to:				
Equity holders of the Company	511,630,413	5,881,774,698	783,729,340	339,755,881
Minority interests	—	—	—	—
Profit for the year	511,630,413	5,881,774,698	783,729,340	339,755,881
Earnings per share				
Basic and diluted (RMB)	0.22	2.61	0.35	0.15

Four-Year Summary

(Expressed in Renminbi)

	2009	2008	2007	2006
Assets and liabilities				
Non-current assets	8,007,226,281	7,925,777,868	1,370,111,297	578,144,731
Net current assets/(liabilities)	1,587,232,926	(169,374,420)	20,436,171	28,673,398
Total assets less current liabilities	9,594,459,207	7,756,403,448	1,390,547,468	606,818,129
Non-current liabilities	—	(321,053,207)	—	—
Net assets	9,594,459,207	7,435,350,241	1,390,547,468	606,818,129
Share capital	20,797,400	232,245	10,000,000	10,000,001
Reserves	9,573,661,807	7,435,117,996	1,380,547,468	596,818,128
Total equity attributable to equity holders of the Company	9,594,459,207	7,435,350,241	1,390,547,468	606,818,129
Minority interests	—	—	—	—
Total equity	9,594,459,207	7,435,350,241	1,390,547,468	606,818,129

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

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 January 2006, rather than from 19 March 2008. Accordingly, the consolidated results of the Group for the four years ended 31 December 2009 have been prepared as if the group structure immediately after the Reorganisation had been in existence since 1 January 2006. This financial summary includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2006. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.

Chairman's Statement

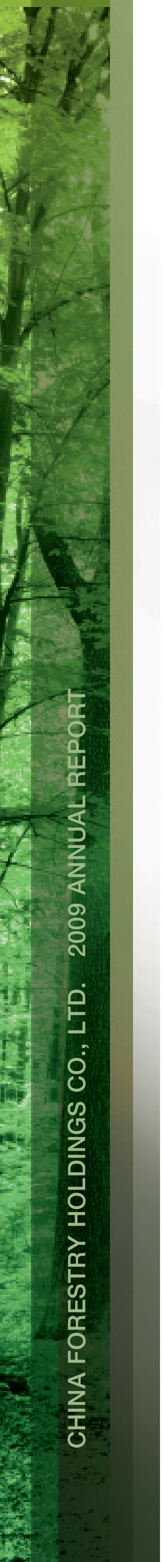
Chairman
Li Kwok Cheong

Dear Shareholders,

China's forestry industry enjoyed healthy development in 2009 on the back of robust market demand for quality timber, as the national economy sustained stable growth against a global backdrop overshadowed by the financial tsunami. Meanwhile, the Central Government enhanced its effort to grow the forestry industry in a bid to drive the development of a modernised forestry industry. According to the "Forestry Industry Plans for Strengthening the Forestry Industry (2010–2012)" jointly announced by the State Forestry Administration, the NDRC, the Ministry of Finance, the Ministry of Commerce and the State Administration of Taxation in November 2009, strategic realignments to the forestry industry will be advanced and 100 leading enterprises in the industry will receive special support in their development. As one of the three leading private operators of naturally regenerated forests and plantation forests, China Forestry Holdings Co., Ltd. ("China Forestry" or the "Company") is set to benefit from the government's policies on forestry industry.

Chairman's Statement

A favourable market environment supported by government policies has created for China Forestry positive conditions and opportunities for expansion. On the back of its massive resources of high-quality forests and sustainable forest management, the Company raised the harvesting rate of its owned forests in 2009 in accordance with its plans to meet market demand with increased production. Driven by stronger market demand, the Company's timber sales improved significantly in 2009, both in terms of volume and prices. Encouraging results were reported for the year ended 31 December 2009, with profit attributable to the equity holders of the Company (excluding the fair value of plantation forest assets less changes in costs to sell and reversal of the fair value of plantation forest assets after harvesting) amounting to RMB438.3 million or a strong growth of 80.9% over 2008. The Board of Directors of the Company (the "Board") recommended the payment of a final dividend of HK5.86 cents per share.



Chairman's Statement

China Forestry continued with the implementation of its core strategy in 2009, as it swiftly expanded its forest land reserves in an orderly manner to support ongoing rapid business growth by actively sourcing and acquiring sustainable and high-quality forest land available for immediate harvesting. In this connection, the Company entered into a framework agreement with the Ninglang County Government of Yunan Province last September for the acquisition of 53,333 hectares of forests, followed by the signing of the related forest land transfer agreement in February this year. The Company's forest reserves in Yunnan Province has been substantially increased by 33% to 212,666 hectares as a result.

Rapid expansion of forest land resources is essential to the success of the Company's business development. The introduction of Partners Group and Carlyle Funds, both well-known international institutional investors, as strategic shareholders and the listing of China Forestry on the main board of The Hong Kong Stock Exchange Limited (the "Stock Exchange") in 2009 were aimed at enhancing the financial strength of the Company to facilitate rapid business expansion. Furthermore, the Company's competitive edge is also dependent upon its ability to improve the quality of its forest resources by optimising forest management. In this regard, China Forestry filed an application for accreditation by The Forest Stewardship Council last year, as part of our efforts to match international standards in forest land management in support of our future business expansion.

Looking forward, the Company is optimistic about continued business growth in 2010, given robust market demand for timber in line with China's rapid and stable economic growth. Market demand for timber is expected to further increase following the Central Government's promulgation of Document No. 1 in January 2010, which called for support of urban and rural development and home ownership for rural residents. Meanwhile, Russia's move to increase export tariff for softwood to 80% is expected to drive the demand for and prices of domestic timber. China Forestry will be well-positioned to capture the enormous opportunities arising from an undersupplied market, with the additional edge of owning forest land reserves which are immediately harvestable.

Chairman's Statement

China Forestry will continue to implement the strategy of expanding its forest land reserves, seeking to identify fine-quality forest land in neighbouring provinces through actively inspection while continuing to acquire additional forest land in Sichuan and Yunnan. Meanwhile, we will move to recruit management and technical experts, step up with IT system building, expand our sales and marketing teams and enhance research and development in forest management in accordance with plans formulated to strengthen the Company as a whole as well as the operations of individual segments, aiming at improvements in operational capabilities on all fronts to support our future development.

The vision of China Forestry is to become a leader in the process of privatisation of China's forestry industry and a major operator of integrated forest resources in the Asia Pacific. While currently focusing on upstream businesses, the Company has plans to expand its timber import trading business to create greater synergies. We are also actively considering strategic partnerships with downstream operators in the forestry industry chain, with a view to fostering further competitive edge for China Forestry.

2009 is an important milestone in the corporate history of China Forestry. With its successful listing on the Stock Exchange of Hong Kong, the Company has established a solid platform for future development. Our task for the next stage is to pursue rapid business expansion and maximise value for shareholders by fully leveraging our strengths as a listed company. With every confidence in the future, China Forestry is well-poised for growth and development in the years ahead.

Last but not least, may I express sincere gratitude on behalf of the Board for the outstanding contributions and incessant efforts of the management and other members of our staff, as well as the unwavering support of our shareholders and business partners.

Li Kwok Cheong
Chairman
26 April 2010


We strive
To Maintain Sustainability

Management Discussion and Analysis

BUSINESS REVIEW

The Company is one of the three leading private operators of naturally regenerated forests and plantation forests in China in terms of coverage area of owned forest right. We are principally engaged in forest management and the sustainable development, harvesting and sales of timber, focused on the development and supply of timber to meet the increasing demand from manufacturers in the construction, furniture, interior decoration, wood product and paper industries in China.

During the year under review, market demand for timber continued to rise. The Company reported a 45.7% increase in turnover over 2008 to RMB793.7 million, while sales volume and average selling price amounted to 626,490 m^3 and RMB1,267, representing growth of 20.4% and 21.0% over 2008, respectively.

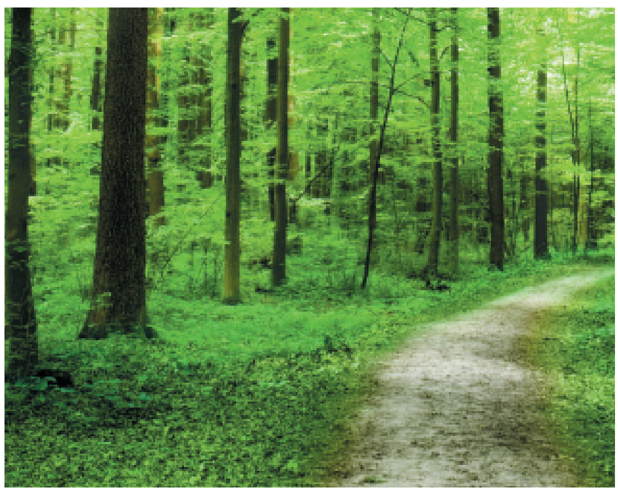
Forest land reserves remain the cornerstone of rapid and sustainable development of the Company. As at 31 December 2009, the Company owned forestry rights in respect of approximately 171,780 hectares of forests and total forest stock volume of approximately 35.27 million m^3. Forests owned by the Company are all located in Sichuan Province and Yunnan Province, occupying areas of approximately 12,447 hectares and 159,333 hectares, respectively. Based on appraisals of independent valuers, forests owned by the Company were valued at approximately RMB7,767 million as at 31 December 2009, with 90% of them aged between 18 to 60 years and immediately harvestable.

During the year under review, the Company actively identified opportunities for the acquisition of forest land to expand its reserves. In September 2009, the Group entered into a framework agreement with Ninglang County Government of Yunnan Province, pursuant to which the County Government agreed to assist the Group in acquiring 53,333 hectares (equivalent to 800,000 mu) of forest land. On 26 February 2010, a forest land transfer agreement was executed on the basis of the framework agreement, whereby the Group's acquisition of forestry rights relating to the said forests for a term of 30 years was confirmed.

Management Discussion and Analysis

The Company has also entered into non-binding letters of intention with the Ninglang County Government and Lianghe County Government of Yunnan Province respectively, both in July 2008, for the acquisition of 200,000 hectares of forest land in Ninglang County (among which 53,333 hectares were subsequently acquired pursuant to the forest land transfer agreement executed on 26 February 2010) and approximately 66,667 hectares in Lianghe County. The Company will continue to identify opportunities for the acquisition of other high-quality forests in China.

To maintain sound forest management within our forest land reserves, the Company has adopted forest management standards which are being implemented by its resources management department. A resource monitoring system has been set up, whereby daily inspection of the forests is conducted



by our forest workers and reports on the health and growth of trees are made and recorded on a quarterly basis so that we are able to monitor tree growth and any changes in forest conditions on a continued basis. Dedicated forestry teams have also been formed to monitor forest workers and forest conditions through regular on-site inspections.

To ensure long-term supply of forest resources and sustainable, healthy development of our business, we have also implemented stringent internal regulations in respect of harvesting and replanting. Further to compliance with relevant standards stipulated by the government, we have adopted a harvest rate lower than the government standard and a replanting rate higher than the relevant legal requirement. The Company's harvesting rate and replanting rate for 2009 were 1.8% and 110%, respectively, which were far more stringent than the maximum annual harvesting rate of 10% and the minimum replanting rate of 100% as stipulated by the PRC government. With respect to the PRC government's requirement of a minimum 85% survival rate of seedlings in the year of planting, the Company maintained the minimum legal requirement in 2009 with an average survival rate of 100% in the year of planting.

We are expanding our sales and marketing team in tandem with our business growth, while working to cement our sound relationships with customers. As at 31 December 2009, our team comprised 14 sales staff who provided quality sales and after-sales services to customers on the back of their extensive experience and knowledge in the industry and paid regular visits to customers to strengthen ties and promote our products. The Company has been able to expand its clientele with new customers thanks to its fine reputation in the industry and the strong efforts of our sales and marketing team.

The Company has adopted a unique policy in forest farming, whereby local farmers are hired to manage the forests in a mutually beneficial arrangement, as the farmers' experience in plantation and harvesting will contribute to the stability of our business and the quality of our products, while they will be able to earn stable recurrent income and improve their living standards.


We are
Environmentally Conscious

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2009, the Group's revenue was approximately RMB793.7 million (2008: RMB544.9 million), representing an increase of 45.7% as compared to the previous year. Such increase was primarily attributable to the increase in sales volume of timber by 20.4% to 626,490 m^3 (2008: 520,407 m^3).

The below table shows the volume, in m^3, of log sales from our tree species whose logs we sold during the periods indicated.

	Financial year ended 31 December	
	2009	2008
	(m^3)	(m^3)
Log sales volume from Chinese Fir	186,300	208,207
Log sales volume from Yunnan Pine	41,400	36,000
Log sales volume of Beech	170,290	115,000
Log sales volume of Birch	228,500	161,200
Total sales volume of logs	626,490	520,407
Average Selling Price (Ex. VAT) (RMB per m^3)	1,267	1,047

Management Discussion and Analysis

Reversal of fair value of the plantation assets upon logging

For the year ended 31 December 2009, the reversal of fair value of the plantation assets upon logging was approximately RMB608.0 million (2008: RMB384.9 million), representing an increase of 58.0% as compared to previous year. Such increase was attributable to the increase in sales volume and the increase in average selling price.

Other Income

The other income increased from RMB119,636 for the year ended 31 December 2008 to approximately RMB2.6 million for the year ended 31 December 2009, representing an increase of 2,065.7% mainly due to the gain from sales of imported Russian timber amounted to approximately RMB1.9 million and the increased in number of tree saplings received from the forestry bureaus for replanting purposes because of increased harvesting.

Staff Cost

Staff cost decreased from RMB98.2 million for the year ended 31 December 2008 to RMB16.8 million for the year ended 31 December 2009 mainly due to the one-off expense of share-based payment of RMB88.6 million, in connection with the one-time equity-settled share-based transaction with Mr. Li Han Chun on 31 March 2008. This share-based payment represents the difference of the fair value of the share transfer and the present value of consideration. Excluding this share-based payment, the increase of staff cost over 2008 is mainly due to the annual increment in basic salary and performance bonus.

Consultancy Fee

Consultancy fees consist of the fees paid to the consultants and intermediaries in connection with the identification, negotiation and acquisition of new forests. The consultancy fee decreased from RMB21.0 million for the year ended 31 December 2008 to RMB7.9 million for year ended 31 December 2009, mainly due to the absence of forest acquisition in 2009.

Operating Expenses for logging activities

Operating expenses for logging activities consisting of cost of harvesting and Forests maintenance fee associated with applying for logging permits. The cost of harvesting increased by 29.7% to RMB156.1 million (2008: RMB120.4

million) and the Forests maintenance fee increased by 17.9% to RMB29.7 million (2008: RMB25.2 million) mainly due to a combination of (i) increase in sale volume from 520,407m^3 for the year ended 31 December 2008 to 626,490m^3 for the year ended 31 December 2009 and (ii) increase in harvesting fee per unit from average RMB231 per m^3 for the year ended 31 December 2008 to average RMB249 per m^3 for the year ended 31 December 2009) resulting from the engagement of professional harvesting team in the Yunnan forests.

Amortisation of insurance premium

Amortisation of insurance premium represents the amortisation of forest insurance premium paid in advance. We have taken out insurance policies to insure the forest against disasters, such as fire, flood and snow etc. The increase of insurance premium amortised from RMB9.9 million for the year ended 31 December 2008 to RMB19.9 million for the year ended 31 December 2009, representing an increase of 101.0% mainly due to the increase in forest area and the full-year amortisation of insurance premium for the forests in Yunnan acquired in March 2008 and July 2008.

Amortisation of lease prepayments

Amortisation of lease prepayment is the amortisation of payments for land use rights in connection with our new forests acquisition. The increase of amortisation of lease prepayment from RMB4.9 million for the year ended 31 December 2008 to RMB7.7 million for the year ended 31 December 2009, representing an increase of 57.1% mainly due to the full-year amortisation of land lease prepayments for the forests in Yunnan newly acquired in March 2008 and July 2008.

Other Operating Expenses

The other operating expenses increased by 135.0% from RMB14.3 million for the year ended 31 December 2008 to RMB33.6 million for the year ended 31 December 2009. The increase in other operating expenses mainly due to the increase in education levy, urban education levy and listing fees.

Management Discussion and Analysis

Change in fair value of plantation assets less cost to sell

Change in fair value of plantation assets less cost to sell consist of unrealised gains or losses that are attributable to the revaluation of forests less cost to sell. IAS 41 on accounting for biological assets required to account for the forest based on the fair value of the plantation assets less costs to sell at each balance sheet date. The aggregate gain or loss arising from the initial recognition of the forests and from the change in the fair value of the forests, less cost to sell, is recognised in the income statement as profit or loss.

For the year ended 31 December 2009, the change in fair value of plantation assets less cost to sell was approximately RMB681.3 million (2008: RMB6,024.4 million). The significant decrease in change in fair value of plantation assets less cost to sell is mainly attributable to the absence of forest acquisition in 2009.

Financial expense

Financial expense represents the deemed interests expenses for the forest acquisition in connection with the Yunnan forest acquisition in 2008. As the consideration for the forest acquisition was not scheduled to be paid up until two years after the acquisition date, the effect of discounting is considered. The payable is stated at amortised cost at each period end and the amortisation for each period is recognised in the income statement as a deemed expense. The increase in financial expenses to RMB78.4 million in 2009 was primarily due to the large portion of consideration payable was falling into 2009.

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 forestry business is exempt from income tax.

Profit for the year

Profit for the year decreased by 91.3% from approximately RMB5,881.8 million for the year ended 31 December 2008 to approximately RMB511.6 million for the year ended 31 December 2009. The net profit margin was 1,079.3% in 2008 and 64.5% in 2009. Our net profit (excluding change in fair value of plantation assets less cost to sell and the reversal of fair value of the plantation assets upon logging) in 2008 and 2009 was RMB242.3 million and RMB438.3 million, respectively, resulting in corresponding net profit margin (excluding change in fair value of plantation assets less cost to sell and the reversal of fair value of the plantation assets upon logging) of 44.5% and 55.2% for years ended 31 December 2008 and 2009, respectively.

Final Dividend

The board of directors recommended a final dividend of HK5.86 cents (equivalent to RMB5.16 cents) per share for the year ended 31 December 2009 (2008: Nil) amounting to HK$179.3 million (equivalent to RMB157.9 million) subject to the approval of the Company's shareholders at the Annual General Meeting of the Company to be held on 3 June 2010.

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, FINANCIAL AND CAPITAL RESOURCES

As at 31 December 2009, the Group's cash and bank balances were mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$") and United States dollars ("US$").

The following table set out certain information regarding the Group's consolidated statement of cash flows for the year ended 31 December 2008 and 2009:

	Year ended 31 December	
	2009 (RMB)	2008 (RMB)
Net cash generated from operating activities	591,329,504	376,592,857
Net cash used in investing activities	(668,063,608)	(347,835,316)
Net cash generated from financing activities	1,679,510,823	74,744,363
Net movement in cash and cash equivalents	1,602,776,719	103,501,904

Management Discussion and Analysis

Net Cash Flows from Operating Activities

The Group's net cash flows from operating activities increased by 57.0%, from approximately RMB376.6 million for the year ended 31 December 2008 to approximately RMB591.3 million for the year ended 31 December 2009, mainly attributable to the increase in sales of timber and increase in average selling price.

Net Cash Flows used in Investing Activities

The Group's net cash flows used in investing activities increased by 92.1%, from approximately RMB347.8 million for the year ended 31 December 2008 to approximately RMB668.1 million for the year ended 31 December 2009. In 2009, it primarily included the capital expenditure on plantation assets of RMB445.0 million and the capital expenditure on lease prepayment of RMB130.9 million.

Net Cash Flows from Financing Activities

The significant increase in Group's net cash flows from financing activities from approximately RMB74.7 million for the year ended 31 December 2008 to approximately RMB1,679.5 million for the year ended 31 December 2009 mainly attributable to the net proceeds from the Global Offering and the Over-Allotment of RMB1,368.4 million (equivalent to HK$1,553.4 million).

Analysis of Inventories

The Group does not hold any harvested timber for the year ended 31 December 2008 and 2009.

Analysis of other receivables

The Group's other receivables increased by 47.1% from approximately RMB37.6 million as at 31 December 2008 to approximately RMB55.3 million as at 31 December 2009, primarily due to the prepayment of logging costs of RMB35.0 million.

Analysis of other payables

The Group's other payables decreased by 72.4% from approximately RMB632.5 million as at 31 December 2008 to approximately RMB174.7 million as at 31 December 2009, primarily due to the payment of consideration for forest acquisition in Yunnan acquired in 2008.

Analysis of net current assets position

The improvement of net current assets position of approximately RMB1,587.2 million as at 31 December 2009 versus the net current liabilities position of approximately RMB169.4 million as at 31 December 2008 primarily due to the net proceeds of RMB1,368.4 million (equivalent to HK$1,553.4 million) from the Global Offering and the Over-Allotment and the payment of Yunnan forests acquired in 2008.

Borrowing

As at 31 December 2009, the Group had no bank borrowings and, therefore, maintained a zero gearing.

Contingent Liabilities

As at 31 December 2009, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

None of the Group's assets was pledged as at 31 December 2009 and 31 December 2008.

Foreign currency risks

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, except for net proceeds and certain payables to professional parties that are denominated in Hong Kong dollars and US dollars that arise from the

Management Discussion and Analysis

Listing. 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 declare if such dividends are to be exchanged or converted into foreign exchange. Moreover, the Group has not hedged its foreign exchange rate risk.

Interest Rate Risk

The Group's income and operating cash flow are not substantially affected by changes in market interest rates. We have no significant interest-bearing assets, except for cash and cash equivalents, nor any interest-bearing liabilities. We have not used any interest rate swaps to hedge against interest rate risk.

Contractual Obligations

As at 31 December 2009, the Group's contractual obligations amounted to approximately RMB2.3 million, and decreased by RMB1.5 million as compared to approximately RMB3.8 million as at 31 December 2008, which was primarily due to the payment for the ERP system.

Capital Expenditure

The Group's total capital expenditure decreased by 99.9% from approximately RMB914.3 million in 2008 to approximately RMB655,897 in 2009. The decrease of capital expenditure was primarily due to the absence of forests acquisition in 2009.

Financial Instruments

The Group did not have any hedging contracts or financial derivatives outstanding for the years ended 31 December 2008 and 2009.

Gearing ratio

The Group's gearing ratio is net debt divided by total equity plus net debt. Net debt is defined as interest-bearing bank loans, net of cash and bank balance and it excludes liabilities incurred for working capital purpose. Equity includes equity attributable to the owners of the Company and minority interests.

As at 31 December 2009, the Group did not have any interest-bearing bank loans. As such, the Group was at a net cash position and no gearing ratio as at 31 December 2009.

SIGNIFICANT INVESTMENTS AND ACQUISITION

For the year ended 31 December 2009, the Group did not have any material acquisitions and disposals of assets.

USE OF PROCEEDS FROM GLOBAL OFFERING

The Shares of the Company were listed on the Main Board on 3 December 2009 with net proceeds from the IPO of approximately HK$1,428.3 million (RMB1,258.2 million) after deducting underwriting commissions and all related expenses. In addition, the net proceeds received by the Company from the Over-Allotment on 24 December 2009 was approximately HK$125.1 million (approximately RMB110.2 million). The total net proceeds from the IPO and the Over-Allotment were approximately HK$1,553.4 (approximately RMB1,368.4 million). As at 31 December 2009, a balance of approximately RMB1,368.4 million remained as bank deposits.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had a total of 420 employees (31 December 2008: 393 employees). For the year ended 31 December 2009, the staff cost (including directors' remuneration in the form of salaries and other benefits) was approximately RMB16.8 million (2008: RMB98.2 million). Details are set out in note 7 to financial statements.

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.

Directors and Senior Management

DIRECTORS

Our Board consists of seven Directors, two of whom are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The details of such Directors are set out below.

Executive Directors

Li Kwok Cheong（李國昌）, aged 52, is our executive Director and chairman. He was appointed as a Director on 21 December 2007. Mr. Li is mainly responsible for the Group's strategic development and oversees the Group's operations and investments. Mr. Li graduated from 中華全國律師函授中心 (Chinese Nation Attorney Teaches by Correspondence the Center), an organisation assisting self-learners in legal higher education examination in China, in June 1987. Mr. Li is an entrepreneur and had invested in tobacco trading from 1993 to 2001, before co-founding the Group in 2001. Mr. Li is the council member of the China Council for the Promotion of Environment and Forestry ("CCPEF"). Mr. Li has over 16 years of experience in management, of which over 8 years of experience in the forestry industry. Mr. Li is the sole director of Kingfly Capital Limited, which is a substantial share holder of the Company.

Li Han Chun（李寒春）, aged 35, is our executive Director and was appointed as a Director on 21 December 2007. Mr. Li is also the chief executive officer of our Group responsible for the management of our Group's daily operations. Mr. Li entered the forest management industry in February 2004 when he joined our Group and is currently a council member of the CCPEF. He had also served as the marketing manager of Tianjin district at China P&G Company Limited and was involved in the marketing of a variety of products of P&G including personal and household care products. Prior to joining us, Mr. Li had about six years' management experience including industries relating to energy management system solutions and personal and household care products. He was the co-founder and managing director of Creative Energy Solutions Holdings Limited when it was listed in January 2002 on the Growth Enterprise Market of Hong Kong Stock Exchange, where Mr. Li worked from April 1999 to April 2003. Mr. Li Han Chun obtained a masters degree from the architecture faculty of Tsinghua University in July 2006. In July 1997, he graduated from Tsinghua University after completing his undergraduate studies in engineering of heat supply, ventilation and air conditioning.

Directors and Senior Management

Non-Executive Directors

Xiao Feng（肖楓）, aged 37, is our non-executive Director. He was appointed as a Director on 8 January 2008 when the Carlyle Funds invested in us and nominated him to our Board. Mr. Xiao is a managing director of the Carlyle Group focused on growth capital investment in China. Prior to joining Carlyle in April 2005, Mr. Xiao was a Vice General Manager at China International Capital Corporation, a well-known investment bank in China, from January 2000 to April 2005. Mr. Xiao received his Master of Business Administration from the China Europe International Business School in April 2000. He obtained a Lawyer's Qualification Certificate in China issued by Ministry of Justice of PRC in June 1997. He also obtained a bachelor degree in electronics and computer science technology and a Bachelor of Arts in English from Tsinghua University in July 1995. Mr. Xiao was appointed as a director of Xtep International Holdings Limited (which shares are listed on the Hong Kong Stock Exchange (Stock code: 1368)) in September 2007 and became its non-executive director in January 2008.

Li Zhi Tong（李志同）, aged 67, is our non-executive Director. He was appointed as a Director on 3 April 2008. From 19 April 2005 to 18 April 2008, he was our consultant and advised us on forestry matters. Mr. Li acquired his forestry experience by being the vicechairman of the CCPEF since 2001 and having served as a major general at the PRC forestry security bureau（森林公安局）previously. Mr. Li was also the first grade forestry police superintendent in China.

Directors and Senior Management

Independent Non-Executive Directors

Wong Tak-jun（黃德尊）, aged 47, is our independent non-executive Director. He was appointed as a Director on 3 April 2008. Mr. Wong is the Chair Professor of Accountancy and the Dean of the Faculty of Business Administration of the Chinese University of Hong Kong (CUHK). Before joining CUHK, he has taught at the University of Maryland in the United States. Mr. Wong has published numerous research articles in a number of finance and accounting journals such as Journal of Finance, Review of Financial Studies, The Accounting Review and Journal of Accounting and Economics and is experienced in reviewing and analysing audited financial statements of public companies. He received his Ph.D. and Master of Business Administration from University of California in December 1990 and June 1986 respectively.

Wang Wei Ying（王偉英）, aged 66, is our independent non-executive Director. He was appointed as a Director on 11 August 2008. Mr. Wang has been a part-time Ph.D. student tutor of Economic Management School of Northeast Forestry University（東北林業大學經濟管理學院）since June 1998 and a professor and the vice-chancellor of Heilongjiang Forestry Science Academy（黑龍江省林業科學院院長）from October 1993 until June 2004. Since 1999, he has been a council member of Chinese Society of Forestry（中國林學會理事）, a non-government organisation comprising forestry professionals in China. In August 2003, he was awarded first-grade (advancement category) scientific technology award for his research in integrated technology applicable to timber-wood-based sustainable forestry development.

Liu Can（劉璨）, aged 43, is our independent non-executive Director. He was appointed as a Director on 11 August 2008. He obtained a master degree in agriculture from Nanjing Forestry University in November 1992 and a PhD degree in management from China Agriculture University in July 2000. From September 2002, Mr. Liu has been an honorary professor and post-graduate student tutor of Economic Management School of China Agriculture University（中國農業大學經濟管理學院）, and from November 2006, a visiting professor of Qingdao Agriculture University（青島農業大學）. He has been conducting research for the Economic Development Research Centre of the China Forestry Scientific Research Academy established by SFA（中國林業科學院經濟發展研究中心）. Mr. Liu has written books relating to forestry.

SENIOR MANAGEMENT

Tong Wai Kit, Raymond（唐偉傑）, aged 37, is the joint chief financial officer and company secretary of our Group. Mr. Tong is primarily responsible for overseeing our Group's financial reporting procedures, internal controls and compliance with the Hong Kong Listing Rules and other relevant laws and regulations. He joined our Group in April 2008, and has over 13 years' working experience in the related fields of finance, audit and accounting. Prior to joining our Group, Mr. Tong, from July 2006 to December 2007, worked as a chief financial officer, company secretary and qualified accountant for ZZNode Technologies Company Limited, which is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC and which shares are listed on the Hong Kong Stock Exchange (stock code: 2371). From March 2004 to June 2006, Mr. Tong worked as a joint company secretary for China Minsheng Banking Corporation Limited, and from April 2003 to December 2003, he worked as a chief financial officer and company secretary for Nanjing Dahe Outdoor Media Company Limited (currently known as Dahe Media Co., Ltd.), which is an outdoor advertising service provider in the PRC and which shares are listed on the Growth Enterprise Market of Hong Kong Stock Exchange (stock code: 8243). Mr. Tong is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated in June 1995 from Hong Kong Polytechnic University with a bachelor's degree in accountancy. He is ordinarily resident in Hong Kong.

Wu Xiao Fen（吳曉芬）, aged 33, is the joint chief financial officer of our Group and responsible for our Group's overall accounting and financial management. She joined our Group in January 2005. Prior to joining our Group, she had been the chief officer of the finance department of Beijing Kerui Yilian Energy Solution Technology Development Company Limited, which is an Independent Third Party and principally engaged in the production and sales of central air conditioning refrigeration control system. She gained her experience of financial management, budgeting and planning through her work at this company prior to joining us. Ms. Wu holds an intermediary accountant certificate and a registered tax agent certificate in China, for which, she had to pass the intermediary accounting qualification examination and certified tax agent practising qualification examination in the PRC respectively. She obtained her bachelor degree in accounting from the Economics Management Faculty of Tsinghua University in July 1999. She is the cousin of one of our executive Directors, Mr. Li Han Chun.

Directors and Senior Management

Zhang Hong Yu（張宏宇）, aged 33, is the chief resource officer of our Group. He oversees our overall forestry management and the operation of our resources management department. He joined our Group in January 2005. Prior to joining our Group, he had been the manager of the administrative department of Huicong Commercial Information and Advertising (Beijing) Co., Ltd. which is principally engaged in the provision of commercial information and advertising service. He gained his management experience through his work at this Company prior to joining us. He holds a bachelor degree in chemistry from Beijing Normal University in July 2000.

Li Hai Jun（李海軍）, aged 39, is the chief sales officer of our Group and responsible for our Group's sales and marketing management. He joined our Group in February 2008. Prior to joining our Group, he had been the personal assistant of Mr. Li Kwok Cheong for about three years. From July 2000 to January 2005, he worked for Sichuan Sheng Hong Forestry Development Co., Ltd.（四川生宏林業發展有限公司）which is principally engaged in the harvesting and sales of timber, and was responsible for its operation and management. Prior to this, he had worked for Sichuan Yi Jin Forestry Development Co., Ltd.（四川億錦林業發展有限公司）, a forestry management company, and he was engaged in its forest maintenance. He gained his experience of forestry management and sales of timber through his work at the aforesaid two companies prior to joining us. Mr. Li graduated from Sichuan Agricultural University in July 1992 after completing his studies in forestry. He is the brother of our chairman, Mr. Li Kwok Cheong.

Directors' Report

The Directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

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

Details of the Company's principal subsidiaries as at 31 December 2009 are set out in note 17 to financial statements of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 51 of this annual report.

DIVIDENDS DISTRIBUTION

The Directors recommend the declaration of a final dividend at the rate of HK 5.86 cents per share payable to all persons registered as holders of shares on 3 June 2010. The aggregate amount shall be paid out of the Company's share premium account. The Register of Members will be closed from Friday, 28 May 2010 to Thursday, 3 June 2010, both days inclusive. In order to be qualified for the dividend and the right to attend and vote at the Annual General Meeting ("AGM") to be held on Thursday, 3 June 2010, shareholders should submit share certificates together with transfer documents to Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong to be registered on the Register of Member on or before 4:30 p.m. on Thursday, 27 May 2010.

PROPERTY, PLANT AND EQUIPMENT AND PLANTATION ASSETS

Details of the movements in the property, plant and equipment and plantation assets of the Group during the year are set out in notes 14 and 16 to financial statements of this annual report.

A surplus of approximately RMB640,305,075 arising as a result of an independent valuation of the Group's property as at 31 July 2009 carried out by Greater China Appraisal Limited have not been incorporated in the Group's consolidated financial statements for the year ended 31 December 2009. It is the Group's policy to state its property, plant and equipment at cost less subsequent accumulated depreciation and accumulated impairment losses. If such revaluation surplus was included in the Group's consolidated financial statements, additional annual depreciation charges of approximately RMB22,461,035 per annum would be incurred.

Directors' Report

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 24 to financial statements of this annual report.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2009 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 54 of this annual report.

As at 31 December 2009, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association was RMB1,842,555,023.

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

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 4 and 5 of this annual report.

LOANS AND BORROWINGS

There were no outstanding bank loans and other borrowings by the Company and the Group as at 31 December 2009.

CHARITABLE DONATIONS

The Company did not make any charitable and other donations during the year under review.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales attributable to the major customers during the financial year is as follows:

	2009 Percentage of the Group's total Sales	2008 Percentage of the Group's total Sales
The largest customer	13.9%	9.7%
Five largest customers in aggregate	59.1%	44.8%

The Group does not purchase fuel, equipment or raw materials in the business operation. Hence, the Group did not have any suppliers during the financial year.

At no time during the financial year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers.

DIRECTORS

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

Executive Directors

Mr. Li Kwok Cheong *(Chairman)*
Mr. Li Han Chun *(Chief Executive Officer)*

Non-executive Directors

Mr. Xiao Feng
Mr. Li Zhi Tong
Mr. Liu Hai Yan *(resigned on 31 March 2009)*

Independence non-executive Directors

Mr. Wong Tak-jun
Mr. Wang Wei Ying
Mr. Liu Can

Directors' Report

Biographical details of the above Directors are set out in the section headed "Directors and Senior Management" on pages 24 to 28 of this annual report.

In accordance with articles 84(1) and 84(2) of the Company's articles of association, Mr. Li Kwok Cheong, Mr. Li Han Chun and Mr. Xiao Feng will retire from the Board by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

REMUNERATION OF THE DIRECTORS

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

Details of the remuneration of the Directors are set out in note 9 to financial statements of this annual report.

REMUNERATION POLICY

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

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2009, 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:

Directors' Report

(a) Long positions in Shares

Long Positions in our Company

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

Notes:

(1) Kingfly Capital 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.

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

Save as disclosed above, as at 31 December 2009, 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.

Since adoption of the scheme, no share option has been granted under the Share Option Scheme during 2009.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

RETIREMENT BENEFITS SCHEMES

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

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

Directors' 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 31 December 2009, Shareholders (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions:

Name	Notes	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Kingfly Capital	1	Beneficial Owner	1,534,950,000	50.16%
		Security Interest	75,000,023	2.45%
Mr. Li Kwok Cheong	1	Interest in controlled corporation	1,534,950,000	50.16%
		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%
Top Wisdom Overseas Holdings Limited	3	Beneficial owner	194,175,000	6.34%
Mr. Li Han Chun	3	Interest in controlled corporation	194,175,000	6.34%
Partners Group AG	4	Investment Manager	165,150,000	5.40%
Partners Group Holding AG	5	Interest in controlled company	165,150,000	5.40%

Notes:

1. Kingfly Capital 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. 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 Overseas Holdings Limited, 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.

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

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

Save as disclosed above, as at 31 December 2009, 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.

Directors' Report

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

AUDIT COMMITTEE

In compliance with Rule 3.21 of the Listing Rules and the CG Code as set out in Appendix 14 to the Listing Rules, the Company established an audit committee on 23 September 2009. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures.

The audit committee currently comprises three independent non-executive Directors, Mr. Wong Tak-jun (Chairman), Mr. Wang Wei Ying and Mr. Liu Can.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the financial statements of the Group for the year ended 31 December 2009.

REMUNERATION COMMITTEE

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

The remuneration committee currently comprises one non-executive Director, Mr. Xiao Feng and two independent non-executive Directors, Mr. Wong Tak-jun (Chairman) and Mr. Wang Wei Ying.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the period from the Listing Date and up to the date of this annual report (the "Review Period").

CODE OF CORPORATE GOVERNANCE PRACTICE

The Company has adopted the Corporate Governance Code as its own code of corporate governance. The Company has complied with the code provisions of the Corporate Governance Code throughout the period from the Listing Date to 31 December 2009 except for the deviation from code provision C3.3(e)(i). As the Company was listed on the Stock Exchange on 3 December 2009, no audit committee meeting of the Company has been held during the financial year ended 31 December 2009, and deviated from code provision C3.3(e)(i) of the CG Code. The first audit committee meeting of the Company was held on 26 April 2010, which was after the year under review. Going onward, the Company will convene audit committee meeting at least once a year in compliance with code provision C3.3(e)(i) of the Corporate Governance Code.

For details of the Corporate Governance Report, please refer to pages 41 to 48 of this annual report.

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

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

Directors' Report

USE OF NET PROCEEDS FROM THE IPO AND THE OVER-ALLOTMENT

The Shares of the Company were listed on 3 December 2009 on the Main Board. The total net proceeds from the Company's issue of new Shares (after the Over-Allotment and deducting underwriting commissions and all related expenses) amounted to approximately HK$1,553.4 million, which have been progressively applied in accordance with the proposed application set out in the section headed "Future Plans and Use of proceeds" to the Prospectus. Please refer to the paragraph headed "Use of Proceeds from Global Offering" in the section headed "Management Discussion and Analysis" in this annual report for further information.

RELATED PARTY TRANSACTIONS

Material related party transactions during the year are disclosed in note 26 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing to 31 December 2009.

AUDITORS

The Company has appointed KPMG as auditors of the Company for the year ended 31 December 2009. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint KPMG as auditors of the Company.

On behalf of the Board
Li Kwok Cheong
Chairman

26 April 2010

Corporate Governance Report

Good corporate governance is conducive to enhancing overall performance, transparency and accountability and is essential in modern corporate administration. The Board of Directors continuously observes the principles of good corporate governance in the interests of Shareholders and devotes considerable effort to identifying and formalizing best practice.

CORPORATE GOVERNANCE CODE

The Company was a private company for most of the year under review as it was only listed on the Main Board of the Stock Exchange on 3 December 2009. Upon the listing of the Company, the Company has complied with the vast majority of the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

In accordance with the requirement of the Listing Rules, the Company has established an audit committee with defined terms of reference and appointed a chief financial controller to oversee the financial reporting procedures and internal control of the Group. The Company has also established a nomination committee and a remuneration committee with defined terms of reference.

As the Company was listed on the Stock Exchange on 3 December 2009, no audit committee meeting of the Company has been held during the financial year ended 31 December 2009, and deviated from code provision C3.3(e)(i) of the Corporate Governance Code. The first audit committee meeting of the Company was held on 26 April 2010, which was after the year under review. Going onward, the Company will convene audit committee meeting at least once a year in compliance with code provision C3.3(e)(i) of the Corporate Governance Code.

Since the listing of the shares of the Company on the Main Board of the Stock Exchange on 3 December 2009, all code provisions set out in the Code were fulfilled by the Company except for the deviation from code provision C3.3(e)(i) as explained above.

Corporate Governance Report

(A) BOARD OF DIRECTORS

The overall management of the Company's operation is vested in the Board.

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems, and monitoring of the performance of the senior management. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board comprises nine Directors, consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report. To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions from the Listing Date to 31 December 2009.

Chairman and Chief Executive Officer

The roles of chairman and the chief executive officer are held separately by Mr. Li Kwok Cheong and Mr. Li Han Chun, respectively, and their roles and responsibilities are separate. The chairman is responsible in leading the Board in forming the Group's strategies and policies and for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group. The chief executive officer is directly in charge of the daily operations of the Group and are accountable to the Board for the financial and operational performance of the Group.

Independent Non-Executive Directors

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

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

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

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's businesses and the statutory regulatory obligations of a director of a listed company. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Corporate Governance Report

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications. The number of the board meetings held and the attendance of each Director at these meetings for the year ended 31 December 2009 have been set out as follows:

	No. of Board Meetings held/attended
Executive Directors	
Mr. Li Kwok Cheong (Chairman)	2/2
Mr. Li Han Chun	2/2
Non-Executive Director	
Mr. Xiao Feng	2/2
Mr. Li Zhi Tong	2/2
Independent Non-Executive Directors	
Mr. Wong Tak-jun	2/2
Mr. Wang Wei Ying	2/2
Mr. Liu Can	2/2

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures complied with the articles of association of the Company, as well as relevant rules and regulations.

Corporate Governance Report

Appointments, Re-Election and Removal of Directors

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

Board Committees

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

Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 23 September 2008 in compliance with Rule 3.21 of the Listing Rules and re-confirmed on 5 November 2009. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their written terms of reference are in line with the Corporate Governance Code provisions. The audit committee consists of three members, namely, Mr. Wong Tak-jun, Mr. Wang Wei Ying and Mr. Liu Can, all of whom are independent non-executive Directors. Mr. Wong Tak-jun is the chairman of the audit committee.

Corporate Governance Report

The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009, including the accounting principles and practice adopted by the Group.

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

Since the audit committee was only re-confirmed on 5 November 2009, the audit committee did not hold any meeting during the year under review.

Remuneration Committee

The Company established a remuneration committee on 23 September 2008 with written terms of reference, which was re-confirmed on 5 November 2009. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review performance based remuneration, and ensure none of the Directors determine their own remuneration. Their written terms of reference are in line with the Corporate Governance Code provisions. The remuneration committee consists of three members, namely, Mr. Wong Tak-jun, Mr. Wang Wei Ying and Mr. Xiao Feng. Mr. Wong Tak-jun is the chairman of the remuneration committee.

Since the remuneration committee was only re-confirmed on 5 November 2009, the remuneration committee did not hold any meeting during the year under review.

Nomination Committee

The Company established a nomination committee on 23 September 2008 with written terms of reference, which was re-confirmed on 5 November 2009. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. Their written terms of reference are in line with the Corporate Governance Code provisions. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships. The nomination committee consists of three members, namely, Mr. Li Han Chun, Mr. Wang Wei Ying and Mr. Liu Can. Mr. Li Han Chun is the chairman of the nomination committee.

Since all of the present Directors were appointed prior to the Company's listing and the nomination committee was only re-confirmed on 5 November 2009, the nomination committee did not hold any meeting during the year under review.

(B) FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

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

External Auditors' Remuneration

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

Initial public offering	HK$4.9 million
Statutory audit services	HK$1 million

(C) INTERNAL CONTROLS

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively. External consultants were hired to assist the Board to perform high-level review of internal control systems for selected business operations and processes. Such review covered financial, compliance and operational controls as well as risk management mechanisms.

(D) COMMUNICATIONS WITH SHAREHOLDERS

The Board recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.chinaforestryholding.com. The Board maintain regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various board committee would attend and answer questions raised on the annual general meeting of the Company. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

Independent Auditor's Report

Independent auditor's report to the shareholders of
China Forestry Holdings Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Forestry Holdings Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 50 to 96, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

26 April 2010

Consolidated Income Statement

for the year ended 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB	2008 RMB
Turnover	4	**793,692,961**	544,947,744
Other operating income	5	**2,590,962**	119,636
Amortisation of insurance premium		**(19,900,918)**	(9,929,155)
Amortisation of lease prepayments	15	**(7,722,471)**	(4,916,734)
Auditor's remuneration		**(985,316)**	(132,468)
Changes in fair value of plantation assets less costs to sell	16		
— upon initial acquisition of the plantation assets		**—**	6,635,132,871
— changes during the year		**681,338,794**	(610,768,672)
Consultancy fees		**(7,860,613)**	(21,048,083)
Depreciation	14	**(213,058)**	(230,112)
Foreign exchange loss		**(3,168,077)**	(3,053,644)
Operating expenses for logging activities		**(185,801,450)**	(145,559,950)
Other operating expenses		**(33,631,036)**	(14,286,072)
Rental expenses of properties		**(2,004,392)**	(1,366,471)
Reversal of fair value of plantation assets upon logging and sales of the plantation assets	18	**(607,994,691)**	(384,853,771)
Staff costs	7	**(16,777,851)**	(98,198,144)
Travelling expenses		**(2,040,181)**	(1,708,679)
Profit from operations		**589,522,663**	5,884,148,296
Financing income		**532,624**	1,480,623
Financing expenses		**(78,424,874)**	(3,854,221)
Net financing costs	6	**(77,892,250)**	(2,373,598)
Profit before taxation		**511,630,413**	5,881,774,698
Income tax	8	**—**	—
Profit for the year		**511,630,413**	5,881,774,698
Attributable to:			
Equity shareholders of the Company		**511,630,413**	5,881,774,698
Earnings per share (RMB)			
Basic and diluted	12	**0.22**	2.61

The notes on pages 56 to 96 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 24(b).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009
(Expressed in Renminbi)

	2009 RMB	2008 RMB
Profit for the year	**511,630,413**	5,881,774,698
Other comprehensive income for the year		
Foreign currency translation differences for foreign operations	**(1,060,190)**	(273,221)
Total comprehensive income for the year	**510,570,223**	5,881,501,477
Attributable to:		
Equity shareholders of the Company	**510,570,223**	5,881,501,477

The notes on pages 56 to 96 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB	2008 RMB
Non-current assets			
Property, plant and equipment, net	14	**22,121,973**	6,951,089
Lease prepayments	15	**218,104,308**	225,826,779
Plantation assets	16	**7,767,000,000**	7,693,000,000
Total non-current assets		**8,007,226,281**	7,925,777,868
Current assets			
Other receivables	19	**55,321,994**	37,580,311
Cash and cash equivalents	21	**1,706,636,428**	104,530,763
Total current assets		**1,761,958,422**	142,111,074
Current liabilities			
Other payables	22	**(174,725,496)**	(311,485,494)
Total current liabilities		**(174,725,496)**	(311,485,494)
Net current assets/(liabilities)		**1,587,232,926**	(169,374,420)
Total assets less current liabilities		**9,594,459,207**	7,756,403,448
Non-current liabilities			
Other payables	22	**–**	(321,053,207)
Total non-current liabilities		**–**	(321,053,207)
Net assets		**9,594,459,207**	7,435,350,241
Capital and reserves			
Share capital		**20,797,400**	232,245
Reserves		**9,573,661,807**	7,435,117,996
Total equity attributable to equity shareholders of the Company		**9,594,459,207**	7,435,350,241

Approved and authorised for issue by the board of directors on 26 April 2010.

Li Kwok Cheong
Director

Li Han Chun
Director

The notes on pages 56 to 96 form part of these financial statements.

Balance Sheet

at 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB	2008 RMB
Non-current assets			
Investments in subsidiaries	17	**21**	21
Total non-current assets		**21**	21
Current assets			
Other receivables	19	**1,695,425**	194,785
Amount due from a subsidiary	20	**728,116,301**	239,209,576
Cash and cash equivalents	21	**1,195,886,829**	—
Total current assets		**1,925,698,555**	239,404,361
Current liabilities			
Amounts due to subsidiaries	20	**(36,468,550)**	(21)
Other payables	22	**(25,877,603)**	(63,756)
Total current liabilities		**(62,346,153)**	(63,777)
Net current assets		**1,863,352,402**	239,340,584
Net assets		**1,863,352,423**	239,340,605
Capital and reserves	24		
Share capital		**20,797,400**	232,245
Reserves		**1,842,555,023**	239,108,360
Total equity		**1,863,352,423**	239,340,605

Approved and authorised for issue by the board of directors on 26 April 2010.

Li Kwok Cheong
Director

Li Han Chun
Director

The notes on pages 56 to 96 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	Share capital RMB (note 24(c))	Share premium RMB (note 24(d))	Statutory surplus reserve RMB (note 24(d))	Capital reserve RMB (note 24(d))	Exchange reserve RMB (note 24(d))	Retained earnings RMB	Total equity RMB
Balance at 1 January 2008		10,000,000	–	16,706,923	–	–	1,363,840,545	1,390,547,468
Changes in equity for 2008:								
Shares issued	24	232,245	247,886,109	–	–	–	–	248,118,354
Payment to shareholder upon Reorganisation		(10,000,000)	–	(16,706,923)	–	–	(146,667,068)	(173,373,991)
Equity-settled share-based transaction	23	–	–	–	88,556,933	–	–	88,556,933
Appropriation to statutory surplus reserve		–	–	170,865,000	–	–	(170,865,000)	–
Total comprehensive income for the year		–	–	–	–	(273,221)	5,881,774,698	5,881,501,477
Balance at 31 December 2008		232,245	247,886,109	170,865,000	88,556,933	(273,221)	6,928,083,175	7,435,350,241
Balance at 1 January 2009		**232,245**	**247,886,109**	**170,865,000**	**88,556,933**	**(273,221)**	**6,928,083,175**	**7,435,350,241**
Changes in equity for 2009:								
Shares issued	24	**24,361**	**280,120,409**	**–**	**–**	**–**	**–**	**280,144,770**
Capitalisation issue	24	**15,037,670**	**(15,037,670)**	**–**	**–**	**–**	**–**	**–**
Issuance of shares for placing and public offering	24	**5,503,124**	**1,472,301,084**	**–**	**–**	**–**	**–**	**1,477,804,208**
Share issuance cost		**–**	**(109,410,235)**	**–**	**–**	**–**	**–**	**(109,410,235)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(1,060,190)**	**511,630,413**	**510,570,223**
Balance at 31 December 2009		**20,797,400**	**1,875,859,697**	**170,865,000**	**88,556,933**	**(1,333,411)**	**7,439,713,588**	**9,594,459,207**

The notes on pages 56 to 96 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB	2008 RMB
Operating activities			
Net cash generated from operating activities	21(b)	**591,329,504**	376,592,857
Investing activities			
Payment for purchase of fixed assets		**(14,282,402)**	(7,271,789)
Capital expenditure on lease prepayments		**(130,862,766)**	(68,423,790)
Capital expenditure on plantation assets		**(445,026,190)**	(269,840,939)
Proceeds from disposal of plantation assets		**–**	74,800
Interest paid		**(78,424,874)**	(3,854,221)
Interest received		**532,624**	1,480,623
Net cash used in investing activities		**(668,063,608)**	(347,835,316)
Financing activities			
Proceeds from issue of shares, net of issuance cost		**1,679,510,823**	248,118,354
Payment to shareholder upon Reorganisation		**–**	(173,373,991)
Net cash generated from financing activities		**1,679,510,823**	74,744,363
Net movement in cash and cash equivalents		**1,602,776,719**	103,501,904
Cash and cash equivalents at 1 January		**104,530,763**	1,028,859
Effect of foreign exchange rate change		**(671,054)**	–
Cash and cash equivalents at 31 December	21(a)	**1,706,636,428**	104,530,763

The notes on pages 56 to 96 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2009

1 GENERAL INFORMATION AND GROUP REORGANISATION

China Forestry Holdings Co., Ltd. (the "Company") was incorporated in the Cayman Islands on 21 December 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (collectively referred to as the "Group").

The companies comprising the Group underwent a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The timber and forestry related business together with the relevant assets and liabilities representing the only business of Beijing Zhaolin Forestry Resources Development Co., Ltd. (the "Predecessor Entity"), were transferred to certain companies comprising the Group. On 19 March 2008, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 19 November 2009 (the "Prospectus").

The Company's shares were listed on the Stock Exchange on 3 December 2009.

2 BASIS OF PRESENTATION

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. Accordingly, the relevant assets and liabilities of the Predecessor Entity transferred to the companies comprising the Group have been recognised at historical costs.

The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from the date of the Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2008 and 2009 included the results of the Company and its subsidiaries with effect from 1 January 2008 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the two years presented. All material intra group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with 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 below.

IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company of which the Group and the Company have already adopted, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2009. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 December 2009 are set out in note 31.

(b) Basis of preparation of the financial statements

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest yuan. The functional currency of the entities within the Group is Hong Kong dollars ("HKD") except for the subsidiaries established in the People's Republic of China (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 financial statements are prepared on the historical cost basis except plantation assets (see note 3(g)) that are stated at their fair value.

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

Notes to the Financial Statements

for the year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

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

(iii) Business combination under common control

Business combinations arising from transfers of businesses that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements.

(d) Foreign currency

(i) Foreign currency transactions

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency (continued)

(ii) Foreign operations

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The assets and liabilities of foreign operations are translated into RMB at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(e) Property, plant and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

Notes to the Financial Statements

for the year ended 31 December 2009

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

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

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

(f) Lease prepayments

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

(g) Plantation assets

Plantation assets comprise forest crop in mainland China.

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

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

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 3(k)). An impairment allowance for doubtful receivables is recognised based upon the evaluation of the recoverability of these receivables at the balance sheet date.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories represent timber harvested from plantation assets. The cost of timber transferred from plantation assets is its fair value less costs to sell at the date of harvest, determined in accordance with the accounting policy for plantation assets (see note 3(g)).

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

(j) Cash and cash equivalents

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where the assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for the assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly. Subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— lease prepayments; and

— investments in subsidiaries.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits

(i) Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) Defined contribution plan

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

(iii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(m) Provisions and contingent liabilities

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Trade and other payables

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

(o) Revenue

(i) Sale of goods

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

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

(ii) Government grants

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

(p) Operating lease charges

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

(q) Finance income and expenses

Interest income is recognised in profit or loss as it accrues using the effective interest method.

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax

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

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

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

(s) Related parties

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Segment reporting

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

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

4 TURNOVER

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

Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts. Pursuant to tax notices from Beijing State Tax Bureau, the applicable value added tax rate for the Predecessor Entity was 4% from January to March 2008. Subsequent to the consummation of the Reorganisation, the applicable value added tax rate for the Group is 13% according to Cai Shui [1994] No. 4 issued by the Ministry of Finance and the State Administration of Taxation of the PRC.

The Group's customer base includes four customers with whom transactions have exceeded 10% of the Group's revenues in 2009 (2008: Nil). During the year ended 31 December 2009, revenue from each of these customers amounted to approximately RMB111 million, RMB109 million, RMB87 million, and RMB85 million. Since most of the customers are requested to pay in full before taking delivery of timber logs, the credit risk of the Group is considered insignificant.

5 OTHER OPERATING INCOME

	2009 RMB	2008 RMB
Government grants	**655,897**	119,636
Other trading income	**1,933,733**	—
Others	**1,332**	—
	2,590,962	119,636

6 NET FINANCING COSTS

	2009 RMB	2008 RMB
Interest income earned from deposits with bank	**532,624**	1,480,623
Interest paid on payable for forest acquisition (see note 22)	**(78,424,874)**	(3,854,221)
	(77,892,250)	(2,373,598)

7 STAFF COSTS

	2009 RMB	2008 RMB
Salaries, wages and other benefits	**15,433,698**	9,133,319
Contributions to defined contribution retirement schemes	**1,344,153**	507,892
Equity-settled share-based payment (see note 23)	**—**	88,556,933
	16,777,851	98,198,144

7 STAFF COSTS (CONTINUED)

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% (2008: 20%) of the standard wages determined by the relevant authorities during the year ended 31 December 2009. Contributions to the Schemes vest immediately.

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

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

8 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) The provisions for Hong Kong Profits Tax for the year ended 31 December 2009 were calculated at 16.5% (2008: 16.5%). No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2008 and 2009.

Notes to the Financial Statements

for the year ended 31 December 2009

8 INCOME TAX (CONTINUED)

(c) Under the PRC tax law, the Enterprise Income Tax rate of the PRC was 25% for the year ended 31 December 2009 (2008: 25%). Pursuant to section 27 of the PRC tax law and section 86 of the Implementation Regulations of the PRC tax law, the entity's income derived from forestry business is exempt from income tax. The following is a reconciliation between tax expense and accounting profit at applicable tax rate:

	2009 RMB	2008 RMB
Profit before taxation	**511,630,413**	5,881,774,698
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**133,777,945**	1,492,872,022
Tax effect of tax concession	**(134,269,208)**	(1,493,040,512)
Tax effect of unused tax losses not recognised	**491,263**	168,490
Actual tax expense	**—**	—

Under the PRC tax law, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 are subject to the above-mentioned withholding tax. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future. The aggregate amounts of temporary differences associated with undistributed retained earnings and the related deferred tax liabilities which were not recognised because distribution of earnings was not expected in the foreseeable future amount to RMB7,559,680,090 and RMB377,984,005 respectively as at 31 December 2009 (2008: RMB7,022,603,258 and RMB351,130,163 respectively).

9 DIRECTORS' REMUNERATION

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

2009

	Directors' fees RMB	Basic salaries, allowances and benefits in kind RMB	Discretionary bonuses RMB	Retirement scheme contributions RMB	Sub-total RMB	Share-based payment RMB	Total RMB
Chairman							
Li Kwok Cheong	100,000	–	–	–	100,000	–	100,000
Executive director							
Li Han Chun	100,000	870,941	2,000,000	26,100	2,997,041	–	2,997,041
Sub-total	200,000	870,941	2,000,000	26,100	3,097,041	–	3,097,041
Non-executive directors							
Li Zhi Tong	25,000	–	–	–	25,000	–	25,000
Liu Can	25,000	–	–	–	25,000	–	25,000
Liu Hai Yan *(retired on 31 March 2009)*	–	–	–	–	–	–	–
Wang Wei Ying	25,000	–	–	–	25,000	–	25,000
Wang Tak-jun	29,373	–	–	–	29,373	–	29,373
Xiao Feng	25,000	–	–	–	25,000	–	25,000
Sub-total	129,373	–	–	–	129,373	–	129,373
Total	329,373	870,941	2,000,000	26,100	3,226,414	–	3,226,414

Notes to the Financial Statements

for the year ended 31 December 2009

9 DIRECTORS' REMUNERATION (CONTINUED)

2008

	Directors' fees RMB	Basic salaries, allowances and benefits in kind RMB	Discretionary bonuses RMB	Retirement scheme contributions RMB	Sub-total RMB	Share-based payment RMB	Total RMB
Chairman							
Li Kwok Cheong	–	–	–	–	–	–	–
Executive directors							
Li Han Chun	–	480,000	1,000,000	23,354	1,503,354	88,556,933	90,060,287
Huang Fan *(retired on 4 March 2008)*	–	–	–	–	–	–	–
Sub-total	–	480,000	1,000,000	23,354	1,503,354	88,556,933	90,060,287
Non-executive directors							
Li Zhi Tong *(appointed on 3 April 2008)*	–	–	–	–	–	–	–
Liu Can *(appointed on 11 August 2008)*	–	–	–	–	–	–	–
Liu Hai Yan *(appointed on 3 April 2008)*	–	–	–	–	–	–	–
Wang Wei Ying *(appointed on 11 August 2008)*	–	–	–	–	–	–	–
Wang Tak-jun *(appointed on 3 April 2008)*	–	–	–	–	–	–	–
Xiao Feng *(appointed on 8 January 2008)*	–	–	–	–	–	–	–
Sean Xing He *(appointed on 8 January 2008 and retired on 4 March 2008)*	–	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–	–
Total	–	480,000	1,000,000	23,354	1,503,354	88,556,933	90,060,287

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2008 and 2009. No director waived or agreed to waive any emoluments during the years ended 31 December 2008 and 2009.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include one director for each of the years ended 31 December 2008 and 2009 whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other four individuals are as follows:

	2009 RMB	2008 RMB
Basic salaries, allowances and benefits in kind	**1,571,630**	1,212,500
Discretionary bonuses	**772,180**	300,000
Retirement scheme contributions	**72,802**	86,062
	2,416,612	1,598,562

The emoluments of four individuals (2008: four) with highest emoluments are within the following bands:

	Number of individuals	
	2009	2008
HK$Nil to HK$1,000,000	**3**	4
HK$1,000,000 to HK1,500,000	**1**	—

11 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB22,808,135 (2008: RMB89,366,192) which has been dealt with in the financial statements of the Company.

Notes to the Financial Statements

for the year ended 31 December 2009

12 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity shareholders of the Company of RMB511,630,413 and weighted average number of 2,308,694,000 ordinary shares in issue during the year.

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

	2009 '000
Issuance of shares upon incorporation (note 24(c)(i))	–
Issuance of shares on Reorganisation (note 24(c)(iii))	35,565
Effect of capitalisation issue (note 24(c)(iv))	2,214,435
Issuance of shares for placing and public offering (note 24(c)(v))	58,694
Weighted average number of ordinary shares at 31 December	2,308,694

The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity shareholders of the Company of RMB5,881,774,698 and 2,250,000,000 shares in issue as at the date of the Prospectus as if the shares were outstanding throughout the entire year.

There were no potential dilutive ordinary shares during the years ended 31 December 2008 and 2009.

13 SEGMENT REPORTING

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

14 PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Leasehold improvement RMB	Office equipment RMB	Furniture and fittings RMB	Motor vehicles RMB	ERP system RMB	Total RMB
Cost:						
At 1 January 2008	—	548,339	425,049	—	—	973,388
Additions	121,035	257,592	356,680	314,677	6,221,805	7,271,789
Disposals	—	(567,021)	(630,096)	—	—	(1,197,117)
At 31 December 2008	121,035	238,910	151,633	314,677	6,221,805	7,048,060
At 1 January 2009	121,035	238,910	151,633	314,677	6,221,805	7,048,060
Additions	—	149,933	13,158,691	573,778	1,501,540	15,383,942
At 31 December 2009	121,035	388,843	13,310,324	888,455	7,723,345	22,432,002
Accumulated depreciation:						
At 1 January 2008	—	347,875	182,662	—	—	530,537
Charge for the year	60,518	65,048	99,564	4,982	—	230,112
Disposals	—	(392,125)	(271,553)	—	—	(663,678)
At 31 December 2008	60,518	20,798	10,673	4,982	—	96,971
At 1 January 2009	60,518	20,798	10,673	4,982	—	96,971
Charge for the year	60,517	59,177	32,896	60,468	—	213,058
At 31 December 2009	121,035	79,975	43,569	65,450	—	310,029
Net book value:						
At 31 December 2008	60,517	218,112	140,960	309,695	6,221,805	6,951,089
At 31 December 2009	—	308,868	13,266,755	823,005	7,723,345	22,121,973

Notes to the Financial Statements

for the year ended 31 December 2009

15 LEASE PREPAYMENTS

	The Group	
	2009	2008
	RMB	RMB
Cost:		
At 1 January	**231,870,305**	32,596,582
Additions	**–**	199,286,556
Disposals	**–**	(12,833)
At 31 December	**231,870,305**	231,870,305
Accumulated amortisation:		
At 1 January	**6,043,526**	1,128,136
Charge for the year	**7,722,471**	4,916,734
Disposals	**–**	(1,344)
At 31 December	**13,765,997**	6,043,526
Net book value:		
At 31 December	**218,104,308**	225,826,779

Lease prepayments represent land use rights granted to the Group in respect of its plantation assets in the PRC, which expire between 2016 to 2072. Usage of the land is regulated by the Implementation Regulations of PRC Forest Law issued by the State Council of the PRC.

16 PLANTATION ASSETS

	The Group	
	2009	2008
	RMB	RMB
At 1 January	**7,693,000,000**	1,338,200,000
Additions (note (i))	**655,897**	714,986,766
Harvested timber transferred to inventories (note 18)	**(607,994,691)**	(384,519,909)
Changes in fair value less costs to sell (note (ii))	**681,338,794**	6,024,364,199
Disposal of plantation assets	**–**	(31,056)
At 31 December	**7,767,000,000**	7,693,000,000

Notes:

(i) The additions represent the considerations paid for the acquisitions of forests (excluding the land use rights) and the value of tree saplings planted during the year. The consideration of individual acquisition is agreed on a negotiation basis.

(ii) Changes in fair value less costs to sell include changes upon initial acquisition of the plantation assets and changes during the year.

The changes in fair value less costs to sell upon initial acquisition of the plantation assets represent the difference between the acquisition cost and the value of the new plantation assets at the date of acquisition.

The changes in fair value less costs to sell during the year represent the aggregate of the difference between the value of the existing plantation assets as of the beginning and end of the financial year and the difference between the value of the new plantation assets as of the second day of acquisition and end of the financial year.

At 31 December 2009, plantation assets represent standing timber acquired, planted and managed by the Group and comprise approximately 171,780 hectares of tree plantations (2008: 171,780 hectares) which range from 20 to 24 years old. During the year ended 31 December 2009, the Group harvested approximately 626,490 cubic metres of wood (2008: 519,928 cubic metres), which had a fair value less costs to sell of RMB607,994,691 at the date of harvest (2008: RMB384,519,909).

16 PLANTATION ASSETS (CONTINUED)

The Group's plantation assets in the PRC were independently valued by Chandler Fraser Keating Limited ("CFK"). CFK is a privately owned specialist forest consulting firm headquartered in New Zealand. In view of the non-availability of market value for trees in the PRC, CFK has applied the net present value approach whereby projected future net cash flows, based on its assessment of current timber log prices, were discounted at the rates of 9% to 13% (2008: 9% to 13%) for plantation assets for the year and then applied to pre-tax cash flows to provide a current market value of the plantation assets.

The principal valuation methodology and assumptions adopted are as follows:

— Stands are scheduled to be harvested at or near their optimum economic rotation age;

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

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

— The 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; and

— Costs are current average costs. No allowance has been made for cost improvements in future operations.

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2009 RMB	2008 RMB
Unlisted investment, at cost	21	21

17 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

Name of company	Place of establishment	Paid-up capital	Attributable equity interest indirectly held by the Company	Principal activities
Kunming Ultra Big Forestry Resource Development Co., Ltd * ("Kunming Ultra Big")	The PRC	USD50,000,000	100%	Forest management and sale of timber log
Chengdu Yishang Forestry Resource Development Co., Ltd *	The PRC	USD29,000,000	100%	Forest management and sale of timber log

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

18 INVENTORIES

Inventories represent timber logs harvested from plantation assets.

An analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2009	2008
	RMB	RMB
At 1 January	**–**	346,409
Harvested timber transferred from plantation assets (note 16)	**607,994,691**	384,519,909
Reversal of fair value of plantation assets upon logging	**(607,994,691)**	(384,853,771)
Write off of inventories	**–**	(12,547)
At 31 December	**–**	–

	2009	2008
	RMB	RMB
Carrying amount of inventories sold	**607,994,691**	384,853,771

19 OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB	RMB	**RMB**	RMB
Other receivables	**1,800,767**	225,022	**1,440,080**	194,785
Prepaid insurance premium	**17,479,682**	21,324,175	**—**	—
Other prepayments and deposits	**36,041,545**	16,031,114	**255,345**	—
	55,321,994	37,580,311	**1,695,425**	194,785

The Group enters into a number of insurance policies for its plantation assets and these policies typically run for 1 year to 4 years. The amount of the Group's prepaid insurance premium expected to be expensed after more than one year is RMB3,637,953 at 31 December 2009 (2008: RMB8,556,326). The prepaid insurance premium is amortised on a systematic basis over the insurance term. All of other receivables are expected to be recovered or recognised as expense within one year.

20 AMOUNTS DUE FROM/(TO) SUBSIDIARIES

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

21 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB	RMB	**RMB**	RMB
Cash at bank and in hand	**1,706,636,428**	104,530,763	**1,195,886,829**	—

The Group's cash and cash equivalents include cash at bank and in hand of RMB376,123,689 were held in the PRC as at 31 December 2009 (2008: RMB104,511,396). 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.

21 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of profit before taxation to net cash generated from operations:

		2009 RMB	2008 RMB
Operating activities			
Profit before taxation		**511,630,413**	5,881,774,698
Adjustments for:			
— Amortisation of insurance premium		**19,900,918**	9,929,155
— Amortisation of lease prepayments		**7,722,471**	4,916,734
— Changes in fair value of plantation assets less costs to sell		**(681,338,794)**	(6,024,364,199)
— Depreciation		**213,058**	230,112
— Gain on disposal of plantation assets		**—**	(32,255)
— Loss on disposal of fixed assets		**—**	533,439
— Share-based payment	23	**—**	88,556,933
— Interest expense		**78,424,874**	3,854,221
— Interest income		**(532,624)**	(1,480,623)
Operating loss before changes in working capital		**(63,979,684)**	(36,081,785)
Decrease in inventories harvested timber transferred to inventories (Note)		**607,994,691**	384,866,318
Increase in other receivables		**(45,776,210)**	(26,452,712)
Increase in other payables		**93,090,707**	54,261,036
Net cash generated from operating activities		**591,329,504**	376,592,857

Note: This item includes (i) harvest timber transferred to inventories as disclosed in note 18; and (ii) changes in inventories.

22 OTHER PAYABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB	RMB	**RMB**	RMB
Other payables and accrued expenses	**174,497,904**	50,329,769	**25,813,947**	—
Payable for forest acquisition	**—**	575,888,956	**—**	—
Payable to the Chairman of the Company	**227,592**	6,319,976	**63,656**	63,756
	174,725,496	632,538,701	**25,877,603**	63,756

Other payables and accrued expenses include salary and staff welfare payables, VAT payables and other miscellaneous payables. As at 31 December 2008, other payables to the Chairman of the Company represents payment of listing expense made on behalf of the Group.

Payable for forest acquisition as at 31 December 2008 represents the present value of the considerations for acquisition for 100,000 hectares of forests in Yunnan Province, the PRC. Implicit interest relating to this payable was not yet recognised as at 31 December 2008 amounted to RMB78,424,874, which has been expensed to net financing costs in 2009 upon the settlement of the payable for forest acquisition.

An ageing analysis of other payables is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB	RMB	**RMB**	RMB
Due within 1 month or on demand	**174,725,496**	56,649,745	**25,877,603**	63,756
Due after 1 month but within 3 months	**—**	85,064,488	**—**	—
Due after 3 months but within 6 months	**—**	—	**—**	—
Due after 6 months but within 1 year	**—**	169,771,261	**—**	—
Due after 1 year but within 2 years	**—**	321,053,207	**—**	—
	174,725,496	632,538,701	**25,877,603**	63,756

22 OTHER PAYABLES (CONTINUED)

The Group obtained a non-binding credit facility of not more than RMB1,000 million from Shenzhen Development Bank. Drawdown of the facility is subject to bank's assessment and approval. The facility is valid during the period from September 2008 to September 2011. Up to the balance sheet date, the Group has not drawn down any loans on the facility.

23 EQUITY-SETTLED SHARE-BASED TRANSACTION

Li Han Chun, the director and Chief Executive Officer of the Company, joined the Company in 2004. In order to recognise the contribution of Li Han Chun to the Group, the Chairman transferred an aggregate of 3,200,000 shares ("share transfer") at a cash consideration of USD32,000,000 to Li Han Chun on 31 March 2008. The consideration of USD32,000,000 was determined by reference to the transactions with certain independent foreign investors on 8 January and 18 March 2008. Li Han Chun made a payment of USD2,000,000 to the Chairman on 31 March 2008. As a result of the transfer, Top Wisdom Overseas Holdings Limited, a company wholly owned by Li Han Chun, became a shareholder of the Company and is eligible to the dividend and voting rights of these shares. There are no terms and conditions in connection with any future services of Li Han Chun attached to the share transfer.

Following the share transfer, the above parties signed a supplemental agreement ("supplemental agreement") which provides for the settlement of the remaining USD30,000,000 in cash in 8 annual instalments commencing on 31 December 2010 with no interest charge, but in return Li Han Chun is required to pledge the 1,066,667 acquired shares to the Chairman. Pursuant to the supplemental agreement, the Chairman has a full recourse of the loan from Li Han Chun in case of default in repayment. Given the terms and conditions set out in the share transfer arrangement and supplemental agreement, the benefits of RMB88,556,933 in connection with the share transfer, being the difference of the fair value of shares transferred and the present value of consideration paid and payable by Li Han Chun, were accounted as a share-based payment and recognised as staff costs on 31 March 2008.

Notes to the Financial Statements

for the year ended 31 December 2009

24 CAPITAL AND RESERVES

(a) Movements in components of equity

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

	Note	Share capital RMB (note (c))	Share premium RMB (note (d)(i))	Capital reserve RMB (note (d)(iii))	Exchange reserve RMB (note (d)(iv))	Retained earnings RMB	Total equity RMB
At 1 January 2008		–	–	–	–	(68,060)	(68,060)
Shares issued		232,245	247,886,109	–	–	–	248,118,354
Equity-settled share-based transaction	23	–	–	88,556,933	–	–	88,556,933
Total comprehensive income for the year		–	–	–	(7,900,430)	(89,366,192)	(97,266,622)
At 31 December 2008		232,245	247,886,109	88,556,933	(7,900,430)	(89,434,252)	239,340,605
At 1 January 2009		**232,245**	**247,886,109**	**88,556,933**	**(7,900,430)**	**(89,434,252)**	**239,340,605**
Shares issued		**24,361**	**280,120,409**	**–**	**–**	**–**	**280,144,770**
Capitalisation issue		**15,037,670**	**(15,037,670)**	**–**	**–**	**–**	**–**
Issuance of shares for placing and public offering		**5,503,124**	**1,472,301,084**	**–**	**–**	**–**	**1,477,804,208**
Share issuance cost			**(109,410,235)**	**–**	**–**	**–**	**(109,410,235)**
Total comprehensive income for the year		**–**	**–**	**–**	**(1,718,790)**	**(22,808,135)**	**(24,526,925)**
At 31 December 2009		**20,797,400**	**1,875,859,697**	**88,556,933**	**(9,619,220)**	**(112,242,387)**	**1,863,352,423**

(b) Dividends

	2009 RMB	2008 RMB
Final dividend proposed after the balance sheet date of HK5.86 cents (RMB5.16 cents) per ordinary share (2008: Nil)	**157,911,060**	–

On 12 April 2010, the directors proposed a final dividend of HK5.86 cents (RMB5.16 cents) per share totalling RMB157,911,060 to the equity shareholders of the Company for the shareholders' approval at the forthcoming annual general meeting.

24 CAPITAL AND RESERVES (CONTINUED)

(b) Dividends (continued)

The dividends will be distributed from the share premium of the Company.

The final dividend resolved and proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(c) Authorised and issued share capital

	Number of ordinary shares '000	Amount USD'000
Authorised:		
Shares of USD0.01 each at 1 January 2008 (note (i))	5,000	50
Subdivision of share capital of USD0.01 each to USD0.001 each (note(i))	45,000	—
Increase of share capital (note (ii))	99,950,000	99,950
Share of USD0.001 each at 31 December 2008 and 2009	100,000,000	100,000
Issued:		
Shares of USD0.01 each at 1 January 2008 (note (i))	—	—
Subdivision of share capital (note (i))	—	—
Shares issued (note (iii))	32,000	32
Shares of USD0.001 each at 31 December 2008 and 1 January 2009	32,000	32
Issuance of new shares on Reorganisation (note (iii))	3,565	4
Capitalisation issue (note (iv))	2,214,435	2,214
Issuance of shares for placing and public offering (note (v))	810,452	810
Share of USD0.001 each at 31 December 2009	3,060,452	3,060

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

Notes to the Financial Statements

for the year ended 31 December 2009

24 CAPITAL AND RESERVES (CONTINUED)

(c) Authorised and issued share capital (continued)

(i) The Company was incorporated on 21 December 2007 with an authorised share capital of USD50,000 divided into 5,000,000 ordinary shares of USD0.01 each. On the same day, one nil-paid subscriber's share of USD0.01 was allotted and issued to Kingfly Capital Limited ("Kingfly") at nil consideration. Pursuant to resolutions of the Board of Directors on 8 January 2008, every share of USD0.01 in the issued and unissued share capital of the Company was subdivided into 10 shares of USD0.001.

(ii) Pursuant to resolutions of the Board of Directors on 23 September 2008, the Company's authorised share capital was increased from USD50,000 to USD100,000,000 by the creation of an additional 99,950,000,000 ordinary shares of USD0.001 each, ranking pari passu with the existing ordinary shares of the Company in all aspects.

(iii) Pursuant to the Reorganisation, the Company allotted and issued, a total of 28,499,990 new shares to Kingfly, and 3,500,000 new shares to certain pre-IPO investors in 2008. A further 3,565,217 new shares were allotted and issued to certain pre-IPO investors in 2009.

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

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

Listing expenses amounted to RMB129,003,294, of which RMB109,410,235 has been credited to the share premium account and RMB19,593,059 has been recognised in other operating expenses during the year.

(vi) Share capital at 31 December 2008 represented the aggregated amount of paid-in capital of the companies comprising the Group, after elimination of investments in subsidiaries.

24 CAPITAL AND RESERVES (CONTINUED)

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory surplus reserve

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

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

(iii) Capital reserve

Capital reserve represents the difference between the fair value of shares transferred and the present value of consideration payable for the equity-settled share-based transaction.

(iv) Exchange reserve

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

(e) Distributable reserves

At 31 December 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company, including the distributable amounts disclosed in note 24(d)(i) was RMB1,842,555,023 (2008: RMB239,108,360).

Notes to the Financial Statements

for the year ended 31 December 2009

24 CAPITAL AND RESERVES (CONTINUED)

(f) Capital management

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

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments outstanding as at 31 December 2009 not provided for in the financial statement are as follows:

	The Group	
	2009	2008
	RMB	RMB
Authorised and contracted for:		
— acquisition of fixed assets	2,275,385	3,776,925
Authorised but not contracted for:		
— acquisition of forests	1,400,000,000	—
— acquisition of fixed assets	32,001,270	32,001,270
— other projects	30,000,000	30,000,000
	1,462,001,270	62,001,270

25 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(b) As at 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	The Group	
	2009	2008
	RMB	RMB
Within 1 year	**1,423,017**	1,481,622
After 1 year but within 5 years	**167,350**	1,310,725
	1,590,367	2,792,347

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years (2008: one to three years), with no option to renew the leases. None of the leases includes contingent rentals.

(c) Contingent liabilities

Environmental contingencies

The Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment and wild life have generally become more stringent in recent years and could become more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group for violations whether or not caused or known by the Group. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors are not aware of any environmental liabilities as at 31 December 2008 and 2009.

Obligation to replant

The Group is obligated to replant at least 100% of the crops harvested. During the years ended 31 December 2008 and 2009, the saplings were provided by local forestry authorities free of charge. The Group is obligated to replant the tree crops even if the forestry authorities do not provide the saplings. In such case, there will be a potential cost incurred by the Group.

26 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the company's directors as disclosed in note 9 and certain of the highest paid employees as disclosed in note 10, is as follows:

	2009 RMB	2008 RMB
Short-term employee benefits	5,544,124	2,992,500
Retirement benefits	98,902	109,416
Equity compensation benefits	—	88,556,933
	5,643,026	91,658,849

(b) Financing arrangements

	As at 31 December	
	2009 RMB	2008 RMB
Advances from directors (Note)	328,315	6,319,976
Advance to a director (Note)	1,012,279	—

Note:

The advances from directors are unsecured, interest free and have no fixed repayment term, which are included in "Other payables" (note 22).

The advance to a director is unsecured, interest free and repayable on demand, which is included in "Other receivables" (note 19).

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short term and long term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group;

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding; and

(iii) ensuring that credit risks on sales to customers are properly managed.

The Group is also exposed to financial risks arising from changes in timber prices, which are constantly affected by both demand and supply cycles of the timber industry. As a result, the movements of the prices would have significant impact on the Group's earnings and valuation of plantation assets as well as cash flows and liquidity. Whilst efforts have been made to implement certain strategies, there can be no assurance that the Group will be fully shielded from negative effects resulting from cyclical movements of timber prices.

(b) Credit risk

The Group's credit risk is primarily attributable to sales. Most of the Group's customers are requested to pay in full before taking delivery of the timber logs. The credit risk of the Group is considered insignificant.

Notes to the Financial Statements

for the year ended 31 December 2009

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(c) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet. Its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	2009			
	Within 1 year RMB	From 1 year to 2 years RMB	Total contractual undiscounted cash flow RMB	Balance sheet carrying amount RMB
Financial liabilities				
— Other payables	174,725,496	—	174,725,496	174,725,496

	2008			
	Within 1 year RMB	From 1 year to 2 years RMB	Total contractual undiscounted cash flow RMB	Balance sheet carrying amount RMB
Financial liabilities				
— Other payables	343,943,575	367,020,000	710,963,575	632,538,701

(d) Currency risk

The Group's operations and principal assets are all in the PRC. The revenue generated from sales of timber is all denominated in Renminbi for the years ended 31 December 2008 and 2009. The Group's exposure to currency risk is considered insignificant.

Some of the Group's assets and liabilities were denominated in foreign currencies. The currency give rise to this risk is primarily United States Dollars. The Group did not have hedging measure against currency risk arising from recognised assets and liabilities during the year ended 31 December 2008 and 2009.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. Difference resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

The Group

Exposure to foreign currencies (expressed in RMB)

	2009 USD	2008 USD
Other receivables	19,460	884,397
Cash and cash equivalents	505,777,776	58,086,629
Other payables	(52,495)	(52,544)
Overall net exposure	505,744,741	58,918,482

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	2009		2008	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB
USD	5%	25,287,237	5%	2,945,924
	(5)%	(25,287,237)	(5)%	(2,945,924)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (CONTINUED)

(d) Currency risk (continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

(e) Interest rate risk

The Group has not borrowed any loans from banks or other parties. Furthermore, the Group has not invested in any interest bearing securities. Any excess cash and cash equivalents of the Group are deposited at bank to earn short-term market interest rates. The risk arising from unexpected adverse interest rate movements is considered insignificant.

(f) Natural risk

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by application from the local forestry authorities. Other than the above-mentioned quotas, the Group's revenue also depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. Weather conditions such as floods, droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The Group is insured to protect the forests against certain unfavourable local weather conditions and natural disasters. However, the occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting, or otherwise impede the Group's logging operations or the growth of the trees in the forests.

(g) Fair values

Cash and cash equivalents, other receivables, and other payables are carried at amounts not materially different from their fair values as at 31 December 2008 and 2009.

28 NON-ADJUSTING POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, one of the subsidiaries of the Group, Kunming Ultra Big, entered into Forestry Land Transfer Agreements with an independent third party, Ninglang County Fuxin Environment Development Co., Ltd. (寧蒗縣福鑫生態開發公司), to acquire forestry rights of the parcels of land measuring 53,333 hectares (equivalent to 800,000 mu) in aggregate situated at Ninglang County, Lijiang City, Yunnan Province, the PRC for a period of 30 years. The total cash consideration of RMB464 million will be settled within 12 months of the balance sheet date upon the completion of forestry professional assessment on the parcels of land and submission of a forestry land design plan to the local forestry authorities.

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2009, the directors consider the immediate parent and ultimate controlling party of the Group to be Kingfly, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

30 ACCOUNTING JUDGEMENTS AND ESTIMATES

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Fair value of plantation assets

The Group's plantation assets are valued at fair value less costs to sell. In determining the fair value of the plantation assets, the professional valuers have applied the net present value approach which requires a number of key assumptions and estimates to be made such as discount rate, log price, harvest profile, plantation costs, growth, harvesting and establishment. Any change in the estimates may affect the fair value of the plantation assets significantly. The professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of plantation assets.

30 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(b) Useful lives of property, plant and equipment

The management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Taxation

Determining tax provisions, including value added tax provision, involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account changes in tax legislations.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

Up to the date of issue of these financial statements, the IASB has issued the following new standard which is not yet effective for the year ended 31 December 2009 and which has not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Improvements to IFRSs 2009	1 July 2009

The Group is in the process of making an assessment of what the impact of this standard is expected to be in the period of initial application. So far it has concluded that the adoption of Improvements to IFRSs 2009 is unlikely to have a significant impact on the Group's result of operations and financial position.