



**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



Interim Report **2012**

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Li Kwok Cheong (Chairman)  
Mr. Li Han Chun (duties suspended)  
(removed on 17 February 2012)  
Mr. Lin Pu

### Non-Executive Directors

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

### Independent Non-Executive Directors

Mr. Wong Tak-jun  
(resigned on 1 August 2012)  
Mr. Liu Can  
Mr. Zhu De Miao  
Ms. Hsu Wai Man, Helen

## AUDIT COMMITTEE

Ms. Hsu Wai Man, Helen (Chairlady)  
Mr. Wong Tak-jun  
(resigned on 1 August 2012)  
Mr. Liu Can  
Mr. Zhu De Miao

## REMUNERATION COMMITTEE

Ms. Hsu Wai Man, Helen (Chairlady)  
(appointed on 1 August 2012)  
Mr. Wong Tak-jun  
(resigned on 1 August 2012)  
Mr. Xiao Feng  
Mr. Zhu De Miao

## NOMINATION COMMITTEE

Mr. Li Kwok Cheong (Chairman)  
Mr. Liu Can  
Mr. Zhu De Miao

## COMPANY SECRETARY

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

## AUTHORISED REPRESENTATIVES

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

## REGISTERED OFFICE

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

## Corporation Information *(Continued)*

### HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG SHARE REGISTRAR

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

### AUDITORS

Crowe Horwath (HK) CPA Limited  
34/F The Lee Gardens, 33 Hysan Avenue  
Causeway Bay, Hong Kong

### LEGAL ADVISERS

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

### WEBSITE ADDRESS

[www.chinaforestryholding.com](http://www.chinaforestryholding.com)

### STOCK CODE

00930

### SHARE INFORMATION

Board lot size: 2,000

# Management Discussion and Analysis

## BUSINESS REVIEW

In the first half of 2012, China Forestry continued to direct its efforts to resuming its business operations, rebuilding the foundations of the Company and to strengthening its internal controls for the sake of sustainable future growth. Both the independent investigation for the period from 2006 to 2010 in relation to irregularities and the Internal Control Review as instructed by the Independent Board Committee of the Company were completed in April this year.

During the six months ended 30 June 2012 (the "Current Period"), China's economic growth slowed remarkably as a result of increased global economic instability. The latest report issued by the National Bureau of Statistics shows that China's GDP grew by 7.8% in the first half of this year, with second quarter growth falling to 7.6% year-on-year, revealing the slowest pace of growth since the first quarter of 2009 at the height of the global financial crisis.

Given the challenging economic environment during the Current Period, the Group, despite gradually resuming its business operations, faced a slow recovery in demand for its products. The Group recorded turnover of RMB37.0 million, representing a decrease of 85.6% over the same period in 2011. Losses attributable to owners of the Company amounted to RMB102.7 million as compared to a loss of RMB129.9 million for the same period in 2011. The loss was mainly due to a reduced level of activities in harvesting and trading, finance cost and increased operational expenses, including expenses related to the acquisition of Manzhouli Triple Success Co. Ltd. ("Triple Success") earlier this year and its staff costs.

Harvesting activities are making a slow recovery. The Company continued its efforts to bring its harvesting activities back on track through its determined work in cooperation with governments and through on-site research. Meanwhile, the Company's downstream business developed smoothly and recorded steady growth. Revenue generated in the first half of the year was mainly derived from the Group's timber log trading business and harvesting activities in Sichuan province. During the Current Period, the Company harvested and traded a total of 43,000 cubic meters of timber logs, generating RMB32 million in revenue, with another RMB5 million revenue generated from provision of wood processing.

## Management Discussion and Analysis *(Continued)*

In April 2012, the Company acquired Triple Success, one of the largest high-end wood processing plants in Asia, located in Manzhouli in the Inner Mongolia Autonomous Region. This acquisition represents a part of the Company's strategy to strive for wider margins in the forestry value chain. In the first half of 2012, the Company's primary focus for Triple Success was to conduct training for its management team, to improve its production activity and efficiency and to develop an expansion plan to turn Triple Success into a bulk processor of high-end wood products so as to create strong synergies with the Company's established log trading business which will be benefited for the rich forestry resources from Russia.

The Company also engaged in the strategic expansion into the wood-frame house manufacturing and construction business, which is expected to bring considerable revenue to the Company. During the Current Period, the Company secured a wood-frame house project in Tangshan, Hebei with a total construction area of approximately 13,000 square meters. The wood-frame house project is currently under construction, and is expected to be completed and delivered in the second half of 2012.

During the Current Period, the Company entered the saplings development business, being one aspect of the under-forest economy, to give the Company a new competitive edge. In August, the State Council issued "Opinions regarding accelerating the development of the under-forest economy" ("Opinions"). The Opinions aim to strengthen policy support for the under-forest industry through related tax policies and loan incentives.

As of 30 June 2012, the Group had cash and bank balances of approximately RMB632.5 million, of which approximately RMB173.72 million and USD67.62 million and JPY86.04 million were maintained in the PRC; and approximately RMB45.75 million and USD4.52 million were maintained in Hong Kong (31 December 2011: RMB749.6 million).

## Management Discussion and Analysis *(Continued)*

### PROSPECTS

China's steady economic development has been the principal driving force of China's forestry industry. As demand for wood and wood products is expected to remain strong, the Company remains optimistic about the sustained demand for timber logs. Therefore, the Company is fully prepared to thrive on this opportunity for future growth.

With its enhanced and ongoing internal controls and financing facilities, the Company will continue to rebuild relationships with local governments and relevant parties in order to look for appropriate forests for acquisition and to resume harvesting. The Company will continue to boost its harvesting activities with the aim of gradually resuming normal harvesting levels. Furthermore, as its trading business grows and is becoming increasingly stable, the Company will continue to enlarge the scale of its trading business to achieve better performance in the second half of this year.

Since the acquisition of Triple Success, the Group has been actively engaged in the reconstruction, training and enhancement in productivity of Triple Success. The expansion plan for Triple Success is currently in progress. We also firmly believe that the contribution from Triple Success will provide steady income for the Company.

To speed up its expansion into the downstream wood processing sector, the Company launched a wood-frame house manufacturing and construction business this year. With the booming tourism industry and growing awareness of environmental protection in the PRC, wood-frame houses have promising prospects as they boast comfort and functionality and can be built into various types of dwellings. As at the date of this report, apart from the Hebei Tangshan project, the Company expects several orders for wood-frame house projects in other provinces, and is fully confident that this new business will be a beneficial undertaking. To seek more opportunities and enhance profitability, the Company is also exploring the saplings development business with the local government and authorities.

The Company will step up its efforts to resume trading as soon as possible and is confident that its operations is on the track of stable recovery to its normal levels in 2012.

# Management Discussion and Analysis *(Continued)*

## FINANCIAL REVIEW

### Revenue

During the Current Period, the Group recorded total revenue of RMB37.0 million, representing a decrease of 85.6% over the same period in 2011. The revenue were mainly derived from harvesting activities in Sichuan province and trading of timber logs in the northeastern China. The decrease is mainly due to the slow recovery of harvesting activities in Sichuan and Yunnan provinces and the decrease of demand and price of log in the northeastern China.

### Staff cost

Staff cost increased to RMB19.9 million for the period ended 30 June 2012 from RMB7.7 million over the same period last year mainly due to the increase in number of staff by 335 employee from newly acquired subsidiary, Manzhouli Triple Success Co., Ltd., and the forfeiture of unvested share options of former senior management last year amounted to RMB6 million.

### Consultancy fees

Consultancy fees for the period increased to RMB9.8 million for the period ended 30 June 2012 from RMB4.7 million over the same period last year mainly due to the increase in professional fees to conduct independent investigation and internal control review during the Current Period.

### Foreign exchange loss/gain

The foreign exchange loss decreased to RMB123,000 for the period ended 30 June 2012 from RMB23.2 million over the same period last year mainly due to stable exchange rate between RMB and USD during the current period, and the decrease in US Dollar denominated deposits, as part of the US Dollar denominated deposits has been converted to Renminbi deposits.

### Other operating expenses

The increase in other operating expenses by 42.5% to RMB21.3 million for the period ended 30 June 2012 from RMB15.0 million over the same period last year was mainly due to the change of fair value on the 10.25% Senior Notes with an aggregate principal amount of US\$17,190,000.

## Management Discussion and Analysis *(Continued)*

### Net finance costs

Net finance costs for the period ended 30 June 2012 of RMB54.9 million mainly arose from the interest expenses of Senior Notes with an outstanding amount of USD180 million bearing interest at 10.25% per annum.

### Income tax expenses

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

### Loss for the period

Based on the foregoing reasons, our loss attributable to the owners of the Company amounted to approximately RMB102.7 million for the Current Period.

## SEGMENTAL INFORMATION

There are three operating segments namely forestry management, trading operation and wood processing and construction. Unallocated segment includes corporate functions managed by the Group management. During the period under review, total revenue of forestry management, trading operation, wood processing and construction was approximately HK\$18.8 million, HK\$13.3 million and HK\$5 million respectively.

## LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2012, the Group had cash and bank balances of approximately RMB632.5 million, of which approximately RMB173.72 million and USD67.62 million and JPY86.04 million were maintained in the PRC; and approximately RMB45.75 million and USD4.52 million were maintained in Hong Kong (31 December 2011: RMB749.6 million).



## Management Discussion and Analysis *(Continued)*

### CONTINGENT LIABILITIES

As at 30 June 2012, the Group believes it did not have any material contingent liabilities or guarantees (31 December 2011: Nil).

### PLEDGE OF ASSETS

The Senior Notes were secured by the shares of the Company's subsidiaries incorporated in Hong Kong and BVI, and were subject to the fulfilment of certain financial and non-financial covenants relating to the Group, as commonly found in lending arrangements in high yield senior notes. If the Group was to breach the covenants, the principal and, accrued and unpaid interest of the Senior Notes would become payable on demand. The Directors consider that none of the covenants had been breached as at 30 June 2012.

At 30 June 2012, the bank loans amounted to RMB80 million bear interest ranged from 6.31% to 7.216% per annum and are secured by a guarantee from a subsidiary and certain forestry ownership certificates for 4,254 hectares of plantation assets in Sichuan with total carrying amount of approximately RMB59,594,000, repayable within one year.

### FINANCIAL INSTRUMENTS

The Group did not hold any financial instruments for hedging purposes during the Current Period.

### FOREIGN EXCHANGE EXPOSURE

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

## Management Discussion and Analysis *(Continued)*

### MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

On 27 April 2012, the Group through its wholly-owned subsidiary, Creation Power Group Limited, acquired 70% equity interest in Buildrich Limited (“Buildrich”) and its subsidiaries at a total consideration of RMB112 million. Buildrich is an investment holding company and indirectly held Manzhouli Triple Success Co., Ltd., which is engaged in the provision of wood processing services for timber logs in the PRC. Through this acquisition, the Group is able to expand its business to downstream operation.

### BORROWING AND GEARING RATIO

As at 30 June 2012, the Group had the Senior Notes of USD180 million bearing interest at 10.25% per annum, and repayable on 17 November 2015.

At 30 June 2012, the bank loans amounted to RMB80 million bear interest ranged from 6.31% to 7.216% per annum and are secured by a guarantee from a subsidiary and certain forestry ownership certificates for 4,254 hectares of plantation assets in Sichuan with total carrying amount of approximately RMB59,594,000, repayable within one year.

The Group’s gearing ratio is total debts divided by total assets. The Group’s policy is to keep the gearing ratio at reasonable level. The Group’s gearing ratio as at 30 June 2012 was 0.44 (31 December 2011: 0.41).

### EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2012, the Group had a total of 702 employees (31 December 2011: 317 employees). The Group’s employment and remuneration policies remain the same as those described in the Annual Report for the year ended 31 December 2011.

## Directors' Report

The Directors hereby present their report and the unaudited interim financial report of the Group for the six months ended 30 June 2012.

### INTERIM DIVIDEND

The board of Directors of the Company has resolved not to recommend an interim dividend in respect of the six months ended 30 June 2012.

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

As at 30 June 2012, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

#### (a) Long positions in Shares

Long Positions in our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Li Kwok Cheong <sup>(1)</sup>	Interest of a controlled corporation	1,556,950,000	50.87%
	Security interest	75,000,023	2.45%
Li Han Chun <sup>(2)</sup>	Interest of a controlled corporation	83,175,000	2.72%
Wong Tak-jun <sup>(3)</sup>	Interest of spouse	48,000	0.002%

## Directors' Report (Continued)

Notes:

- (1) Kingfly Capital Limited ("Kingfly Capital") is wholly-owned and controlled by Mr. Li Kwok Cheong and Mr. Li Kwok Cheong is therefore deemed to be interested in the Shares held by Kingfly Capital. Kingfly Capital has a security interest over 75,000,023 Shares, representing approximately 2.45% of the interest in the Company held by Top Wisdom Overseas Holdings Limited ("Top Wisdom").
- (2) Top Wisdom is wholly-owned and controlled by Mr. Han Chun and Mr. Li Han Chun is therefore deemed to be interested in the Shares held Top Wisdom.
- (3) Mr. Wong Tak-jun, the spouse of Ms. Wong Ya Hui, is deemed to be interested in all the Shares in which Ms. Wong Ya Hui is interested. Ms. Wong Ya Hui is the legal and beneficial owner of the 48,000 Shares.

Save as disclosed above, as at 30 June 2012, 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.

## Directors' Report *(Continued)*

### SHARE OPTIONS

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

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

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

On 7 September 2010, the Company granted 42,750,000 options to a director, senior management and key employees. During the period ended 30 June 2012, 1,250,000 unvested options were forfeited. For further details on the financial aspects of the share options, please refer to note 18 to the unaudited interim financial report.

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

So far as is known to any Directors or chief executives of the Company, as at 30 June 2012, 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:

## Directors' Report (Continued)

### Long positions:

Name	Notes	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Kingfly Capital	1	Beneficial Owner	1,556,950,000	50.87%
		Security Interest	75,000,023	2.45%
Mr. Li Kwok Cheong	1	Interest in controlled corporation	1,556,950,000	50.87%
		Security Interest	75,000,023	2.45%
Silver Capital Enterprise Limited	2	Security interest	400,000,000	13.07%
Wong Moon Hei	2	Interest in controlled corporation	400,000,000	13.07%
Carlyle Asia Growth Partners III L.P. ("CAGP")	3	Beneficial owner	322,650,000	10.54%
CAGP General Partner, L.P.	3	Interest in controlled corporation	335,475,000	10.96%
CAGP Ltd.	3	Interest in controlled corporation	335,475,000	10.96%
TC Group Cayman Investment Holdings, L.P.	3	Interest in controlled corporation	335,475,000	10.96%
TCG Holdings Cayman II, L.P.	3	Interest in controlled corporation	335,475,000	10.96%
Carlyle Offshore Partners II, Limited	3	Interest in controlled corporation	335,475,000	10.96%
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%

## Directors' Report *(Continued)*

### 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 Limited.

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. Silver Capital Enterprise Limited is wholly owned by Wong Moon Hei.
3. CAGP General Partner, L.P. is the general partner of CAGP and CAGP III Co Investment, L.P. 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.
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 Private Equity. 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 30 June 2012, 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 *(Continued)*

### CORPORATE GOVERNANCE

Code Provision A.2.1 of the Code of Corporate Governance Practices (the "Code") as was set out in Appendix 14 of the Listing Rules stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

On 15 April 2012, Mr. Li Jian resigned from his position as the acting chief executive officer of the Company, and Mr. Li Kwok Cheong, chairman of the Company, was appointed as the chief executive officer. The Company is in the process of identifying suitable candidates to act as the chief executive officer of the Company and will make an announcement in accordance with the Listing Rules once a new chief executive officer is appointed.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company was not, for any part of the six months ended 30 June 2012, in compliance with the code provisions of the Code for the period from 1 January 2012 to 31 March 2012 or the code provisions of the existing Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

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

During the period ended 30 June 2012, the Company, through its subsidiary, China Zhaoneng Group Limited, purchased an aggregate principal amount of US\$4,000,000 of its Senior Notes due on 17 November 2015. Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2012.

### MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

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



## Directors' Report *(Continued)*

### SUSPENSION OF TRADING

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

### REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The audit committee of the Group currently comprises three independent non-executive directors, namely Ms. Hsu Wai Man, Helen (Chairlady of the Audit Committee), Mr. Liu Can and Mr. Zhu De Miao. All members of the audit committee have reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2012.

### APPRECIATION

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

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

Hong Kong, 30 August 2012

## Condensed Consolidated Income Statement

for the six months ended 30 June 2012

	Note	Six months ended 30 June 2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Turnover	4	37,044	257,929
Cost of sales		(34,719)	(256,750)
Other operating income	6	13,675	30
Amortisation of insurance premium		(48)	(998)
Amortisation of lease prepayments	12	(4,641)	-
Consultancy fees		(9,796)	(4,743)
Depreciation		(5,636)	(1,970)
Foreign exchange loss		(123)	(23,230)
Other operating expenses		(21,329)	(14,969)
Rental expenses of properties		(4,328)	(2,868)
Staff costs	8	(19,928)	(7,658)
Travelling expenses		(3,072)	(3,207)
Changes in fair value of plantation assets less costs to sell	13	1,200	-
Provisional gain on a bargain purchase of subsidiaries	20	2,970	-
<b>Loss from operations</b>		<b>(48,731)</b>	<b>(58,434)</b>
Finance income		7,054	8,011
Finance expenses		(61,933)	(79,531)
<b>Net finance costs</b>	7(a)	<b>(54,879)</b>	<b>(71,520)</b>
<b>Loss before taxation</b>	7	<b>(103,610)</b>	<b>(129,954)</b>
Income tax	9	-	-
<b>Loss for the period</b>		<b>(103,610)</b>	<b>(129,954)</b>
<b>Attributable to:</b>			
Owners of the Company		(102,733)	(129,954)
Non-controlling interests		(877)	-
<b>Loss for the period</b>		<b>(103,610)</b>	<b>(129,954)</b>
<b>Loss per share (RMB)</b>			
Basic and diluted	10	(0.03)	(0.04)

The notes on pages 22 to 46 form part of this unaudited interim financial report. Details of dividends payable to owners of the Company attributable to the loss for the period are set out in note 17.

## Condensed Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2012

	Note	Six months ended 30 June	
		2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
<b>Loss for the period</b>		<b>(103,610)</b>	(129,954)
<b>Other comprehensive income for the period</b>			
Exchange differences on translation of financial statements of group entities outside of the PRC		<b>4,932</b>	14,525
Total other comprehensive income for the period		<b>4,932</b>	14,525
<b>Total comprehensive loss for the period</b>		<b>(98,678)</b>	(115,429)
<b>Attributable to:</b>			
Owners of the Company		<b>(97,801)</b>	(115,429)
Non-controlling interests		<b>(877)</b>	–
<b>Total comprehensive loss for the period</b>		<b>(98,678)</b>	(115,429)

The notes on pages 22 to 46 form part of this unaudited interim financial report.

# Condensed Consolidated Statement of Financial Position

at 30 June 2012

	Note	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	156,185	21,674
Lease prepayments	12	270,849	254,910
Plantation assets	13	2,898,000	2,898,000
Prepayment for forest acquisition		51,288	26,222
Prepayment for purchase of leasehold land		42,873	42,873
Deferred tax assets		3,021	–
<b>Total non-current assets</b>		<b>3,422,216</b>	<b>3,243,679</b>
<b>Current assets</b>			
Inventories		144,850	107,135
Trade and other receivables	14	106,738	137,343
Lease prepayments	12	9,573	9,019
Financial assets at fair value through profit or loss		59,977	54,676
Bank deposits with maturity over 3 months		–	59,858
Cash and cash equivalents		632,452	749,638
<b>Total current assets</b>		<b>953,590</b>	<b>1,117,669</b>
<b>Current liabilities</b>			
Trade and other payables	15	(665,261)	(614,820)
Current tax payable		(62,122)	(62,122)
Interest-bearing borrowings	16	(80,000)	–
<b>Total current liabilities</b>		<b>(807,383)</b>	<b>(676,942)</b>
<b>Net current assets</b>		<b>146,207</b>	<b>440,727</b>
<b>Total assets less current liabilities</b>		<b>3,568,423</b>	<b>3,684,406</b>
<b>Non-current liabilities</b>			
Interest-bearing borrowings	16	(1,119,924)	(1,124,833)
<b>Total non-current liabilities</b>		<b>(1,119,924)</b>	<b>(1,124,833)</b>
<b>NET ASSETS</b>		<b>2,448,499</b>	<b>2,559,573</b>
<b>CAPITAL AND RESERVES</b>			
Share capital		20,797	20,797
Reserves		2,379,306	2,538,776
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>2,400,103</b>	<b>2,559,573</b>
<b>NON-CONTROLLING INTERESTS</b>		<b>48,396</b>	<b>–</b>
<b>TOTAL EQUITY</b>		<b>2,448,499</b>	<b>2,559,573</b>

Approved and authorised for issue by the board of directors on 30 August 2012.

**Li Kwok Cheong**  
Director

**Lin Pu**  
Director

The notes on pages 22 to 46 form part of this unaudited interim financial report.

# Condensed Consolidated Statement of Changes in Equity

for the six months ended 30 June 2012

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Statutory surplus reserve	Capital reserve	Exchange reserve	Retained profits		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2011 (audited)</b>	20,797	1,717,949	170,865	98,656	(19,965)	4,727,893	6,716,195	–
Loss for the period	–	–	–	–	–	(129,954)	(129,954)	–
Exchange differences on translations of financial statements of group entities outside of the PRC	–	–	–	–	14,525	–	14,525	–
Total other comprehensive income	–	–	–	–	14,525	–	14,525	–
Total comprehensive income/(loss)	–	–	–	–	14,525	(129,954)	(115,429)	–
<b>Transactions with owners</b>								
Equity-settled share-based transaction	–	–	–	(6,074)	–	–	(6,074)	–
<b>At 30 June 2011 (unaudited)</b>	20,797	1,717,949	170,865	92,582	(5,440)	4,597,939	6,594,692	–
<b>At 1 January 2012 (audited)</b>	20,797	1,717,949	170,865	96,339	5,709	547,914	2,559,573	–
Loss for the period	–	–	–	–	–	(102,733)	(102,733)	(877)
Exchange differences on translations of financial statements of group entities outside of the PRC	–	–	–	–	4,932	–	4,932	–
Total other comprehensive income	–	–	–	–	4,932	–	4,932	–
Total comprehensive income/(loss)	–	–	–	–	4,932	(102,733)	(97,801)	(877)
<b>Transactions with owners</b>								
Acquisition of subsidiaries	–	–	–	–	–	–	–	49,273
Equity-settled share-based transaction	–	–	–	1,455	–	–	1,455	–
Transfer to retained profits upon forfeiture of share options	–	–	–	(1,197)	–	1,197	–	–
Dividend approved and paid in respect of prior year	–	(63,124)	–	–	–	–	(63,124)	–
<b>At 30 June 2012 (unaudited)</b>	20,797	1,654,825	170,865	96,597	10,641	446,378	2,400,103	48,396

The notes on pages 22 to 46 form part of this unaudited interim financial report.

## Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cash used in operations	<b>(49,941)</b>	(276,342)
Tax paid	–	–
Net cash used in operating activities	<b>(49,941)</b>	(276,342)
Net cash used in investing activities	<b>(22,384)</b>	(255,523)
Net cash used in financing activities	<b>(43,681)</b>	(76,200)
Net decrease in cash and cash equivalents	<b>(116,006)</b>	(608,065)
Cash and cash equivalents at 1 January	<b>749,638</b>	2,784,673
Effect of foreign exchange rate change	<b>(1,180)</b>	(52,164)
Cash and cash equivalents at 30 June	<b>632,452</b>	2,124,444

The notes on pages 22 to 46 form part of this unaudited interim financial report.

# Notes to the Condensed Interim Financial Report (unaudited)

for the six months ended 30 June 2012

## 1 BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34, Interim financial reporting, issued by the International Accounting Standards Board (“IASB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the adoption of new and revised International Financial Reporting Standards (“IFRSs”) that are expected to be reflected in the 2012 annual financial statements. Details of the new and revised IFRSs are set out in note 2.

This unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs. The interim financial report is unaudited, but has been reviewed by the Company’s Audit Committee.

# Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

## 1 BASIS OF PREPARATION (continued)

This unaudited interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2011. The financial information relating to the financial year ended 31 December 2011 that is included in this unaudited interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company's registered office. The auditors have expressed a disclaimer of opinion on those financial statements in their report dated 27 April 2012.

## 2 NEW AND REVISED IFRSs

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

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

## 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of interim financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.



## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

In preparing these condensed consolidated interim financial report, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011, as set out on pages 68 to 70 of the 2011 annual report.

### 4 TURNOVER

The principal activities of the Group are the forestry management, trading of timber logs and lumbers and wood processing and construction in the People's Republic of China (the "PRC"). Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts and service income from provision of wood processing and construction services.

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of logs from harvesting activities	18,758	–
Sales of logs and lumbers from trading activities	13,267	257,929
Revenue from provision of wood processing and construction services	5,019	–
	<b>37,044</b>	257,929

### 5 SEGMENT INFORMATION

The Group manages its business by division which is organised from the product perspective.

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

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

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

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

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 5 SEGMENT INFORMATION (continued)

#### Segment revenue and results

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

#### For the six months ended 30 June 2012 (unaudited)

	Forestry management RMB'000	Trading operation RMB'000	Wood processing and construction RMB'000	Total RMB'000
<b>SEGMENT REVENUE</b>				
Revenue from external customers	18,758	13,267	5,019	37,044
Inter-segment revenue	–	2,625	–	2,625
Reportable segment revenue	18,758	15,892	5,019	39,669
Segment results	(15,655)	7,091	(89)	(8,653)
Unallocated finance income				5,865
Unallocated finance expenses				(61,722)
Unallocated other operating income				363
Unallocated corporate expenses				(31,313)
Fair value loss on financial assets at fair value through profit or loss				(8,150)
Loss before taxation				(103,610)

The accounting policies of the operating segments are the same as the Group's accounting policies described in the annual financial statements for the year ended 31 December 2011. Segment loss represents the loss from each segment without allocation of unallocated finance income, unallocated interest expenses, unallocated other operating income, unallocated corporate expenses, and fair value loss on financial assets at fair value through profit or loss. This is the measure reported to CODM of the Company for the purposes of resources allocation and performance assessment.

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 5 SEGMENT INFORMATION (continued)

#### Segment assets and liabilities

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

##### *Segment assets*

	<b>As at 30 June 2012</b>
	RMB'000
	(unaudited)
<hr/>	
<b>Assets</b>	
Forestry management	3,739,016
Trading operation	258,454
Wood processing and construction	208,759
<hr/>	
Total segment assets	4,206,229
Financial assets at fair value through profit or loss	59,977
Deferred tax assets	3,021
Unallocated corporate assets	106,579
<hr/>	
Consolidated assets	4,375,806
<hr/> <hr/>	

##### *Segment liabilities*

	<b>As at 30 June 2012</b>
	RMB'000
	(unaudited)
<hr/>	
<b>Liabilities</b>	
Forestry management	552,202
Trading operation	16,592
Wood processing and construction	17,476
<hr/>	
Total segment liabilities	586,270
Interest-bearing borrowings	1,199,924
Current tax payable	62,122
Unallocated corporate liabilities	78,991
<hr/>	
Consolidated liabilities	1,927,307
<hr/> <hr/>	

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 5 SEGMENT INFORMATION (continued)

#### Segment assets and liabilities (continued)

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

- all assets are allocated to operating segments other than financial assets at fair value through profit or loss, deferred tax assets and unallocated corporate assets; and
- all liabilities are allocated to operating segments other than interest-bearing borrowings, current tax payable and unallocated corporate liabilities.

#### Other segment information (unaudited)

	Forestry management	Trading operation	Wood processing and construction	Unallo- cated	Consoli- dated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended 30 June 2012</b>					
Changes in fair value of plantation assets					
less costs to sell	1,200	–	–	–	1,200
Other operating income	1,152	12,160	–	363	13,675
Finance income	918	265	6	5,865	7,054
Finance expenses	196	13	2	61,722	61,933
Depreciation of property, plant and equipment	815	291	2,711	1,819	5,636
Reversal of impairment loss on trade receivables	–	5,750	–	–	5,750
Reversal of impairment loss on other receivables	–	3,000	–	–	3,000
Reversal of impairment loss on prepayment for purchase of inventories	–	3,365	–	–	3,365
Amortisation of lease prepayments	4,552	–	89	–	4,641
Additions of property, plant and equipment	582	600	137,808	1,473	140,463
Additions of lease prepayments	–	–	21,134	–	21,134

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 5 SEGMENT INFORMATION (continued)

#### Geographical information

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

#### Information about major customers (unaudited)

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

	<b>Six months ended 30 June 2012</b>
	RMB'000 (unaudited)
Customer A – revenue from sales of timber logs and lumbers from forestry management	16,029
Customer B – revenue from sales of timber logs and lumbers from trading operation	4,797
Customer C – revenue from wood processing and construction	4,289

#### For the six months ended 30 June 2011 (unaudited)

The directors consider that the Group operates in a single business and geographical segment as the revenue and loss are derived entirely from the sales of timber logs in the PRC. Accordingly, no segmental analysis has been presented for the six months ended 30 June 2011.

### 6 OTHER OPERATING INCOME

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Commission income	345	–
Reversal of impairment loss on trade receivables	5,750	–
Reversal of impairment loss on prepayment for purchase of inventories	3,365	–
Reversal of impairment loss on other receivables	3,000	–
Government grants	54	9
Others	1,161	21
	<b>13,675</b>	<b>30</b>

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 7 LOSS BEFORE TAXATION

#### a) Net finance costs

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Finance income</b>		
Interest income earned from deposits with banks	<b>1,474</b>	5,119
Total interest income on financial assets not at fair value through profit or loss	<b>1,474</b>	5,119
Interest income from financial assets at fair value through profit or loss	<b>5,580</b>	–
Change in fair value of derivative financial instruments	–	2,892
	<b>7,054</b>	8,011
<b>Finance expenses</b>		
Interest on borrowings wholly repayable within five years		
– bank loans	<b>(820)</b>	–
– senior notes	<b>(60,861)</b>	(79,488)
Total interest expenses on financial liabilities not at fair value through profit or loss	<b>(61,681)</b>	(79,488)
Others	<b>(252)</b>	(43)
	<b>(61,933)</b>	(79,531)
Net finance costs	<b>(54,879)</b>	(71,520)

#### b) Other items

	<b>Six months ended 30 June</b>	
	<b>2012</b>	<b>2011</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Cost of inventories sold	<b>30,857</b>	256,750
Fair value loss on financial assets at fair value through profit or loss	<b>8,150</b>	–

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 8 STAFF COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Salaries, wages and other benefits	16,617	12,525
Contributions to defined contribution retirement schemes	1,856	1,207
Equity-settled share-based payment expenses (note 18)	1,455	(6,074)
	19,928	7,658

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% (2011: 20% – 22%) of the standard wages determined by the relevant authorities during the six months ended 30 June 2012. Contributions to the Schemes vest immediately.

The Group operates a Mandatory Provident Fund Scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$25,000. 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.

### 9 INCOME TAX

- (a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (b) No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2012 and 2011.

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 9 INCOME TAX (continued)

- (c) No provision for PRC income tax is required for the six months ended 30 June 2012 and 2011 as the Group did not have any assessable profits subject to PRC income tax. Under the PRC tax law, the Corporate Income Tax rate of the PRC was 25% for the six months ended 30 June 2012 (six months ended 30 June 2011: 25%). Pursuant to section 27 of the Corporate Income Tax Law of the PRC ("PRC tax law") and section 86 of the Implementation Regulations of the PRC tax law, the entity's income derived from forestry business is exempt from income tax.

### 10 LOSS PER SHARE

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
Loss attributable to owners of the Company (RMB'000)	<b>102,733</b>	129,954
Number of ordinary shares in issue (thousand shares)	<b>3,060,452</b>	3,060,452
Basic loss per share (RMB)	<b>(0.03)</b>	(0.04)

The diluted loss per share for the six months ended 30 June 2012 is the same as the basic loss per share as the computation of diluted loss per share did not assume the exercise of the Company's outstanding share options since the exercise price of the share options exceeded the average market price of ordinary shares during the period.

The diluted loss per share for the six months ended 30 June 2011 is the same as the basic loss per share as the potential ordinary shares are anti-dilutive.



## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 11 PROPERTY, PLANT AND EQUIPMENT

	RMB'000
<b>Carrying amount</b>	
At 1 January 2012 (audited)	21,674
Exchange adjustments	(41)
Additions – acquisition of subsidiaries	136,353
– others	4,110
Disposals	(275)
Charge for the period	(5,636)
At 30 June 2012 (unaudited)	156,185

### 12 LEASE PREPAYMENTS

	RMB'000
At 1 January 2012 (audited)	263,929
Additions – acquisition of subsidiaries	21,134
Release to the consolidated income statement for the year	(4,641)
At 30 June 2012 (unaudited)	280,422
Representing:	
Land portion of forests acquired by the Group	(i) 259,377
Land use rights held by the Group	(ii) 21,045
	280,422
<b>Analysed for reporting purpose</b>	
Current assets	9,573
Non-current assets	270,849
	280,422

Note:

- (i) This represents the amount allocated as land portion from the consideration in respect of the forests acquired by the Group in the PRC. Usage of the land is regulated by the implementation regulations of the PRC forest law issued by the State Council of the PRC.
- (ii) This represents the land held for own use in wood processing and construction in the PRC.

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 13 PLANTATION ASSETS

	RMB'000 (unaudited)	RMB'000 (audited)
At 1 January 2012/1 January 2011	<b>2,898,000</b>	5,747,000
Increase due to purchases	–	300,000
Changes in fair value of plantation assets less costs to sell and other reconciling items	<b>1,200</b>	(3,149,000)
Harvested logs transferred to inventories	<b>(1,200)</b>	–
At 30 June 2012/31 December 2011	<b>2,898,000</b>	2,898,000

### 14 TRADE AND OTHER RECEIVABLES

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Trade and bills receivables, net	<b>16,919</b>	19,500
Other receivables	<b>14,507</b>	13,002
Loans and receivables	<b>31,426</b>	32,502
Prepayment for purchase of inventories	<b>30,540</b>	74,980
Prepayment for lumbering	<b>8,181</b>	18,411
Prepayment for wood processing and construction	<b>18,044</b>	–
Value added tax recoverable	<b>7,498</b>	1,929
Other prepayments and deposits	<b>11,049</b>	9,521
	<b>106,738</b>	137,343

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 14 TRADE AND OTHER RECEIVABLES (continued)

The following is an aging analysis of trade and bills receivables (net of allowance for doubtful debts) based on the date of recognition of sales as of the end of the reporting period:

	<b>As at 30 June 2012 RMB'000 (unaudited)</b>	As at 31 December 2011 RMB'000 (audited)
0 – 90 days	<b>16,511</b>	19,500
91 – 180 days	<b>408</b>	–
	<b>16,919</b>	19,500

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

### 15 TRADE AND OTHER PAYABLES

	<b>As at 30 June 2012 RMB'000 (unaudited)</b>	As at 31 December 2011 RMB'000 (audited)
Trade payables	<b>7,792</b>	5,839
Payable for forest acquisitions	<b>72,393</b>	95,201
Other payables and accrued expenses	<b>43,092</b>	39,475
Consideration payable for acquisition of subsidiaries	<b>56,000</b>	–
Amount due to a non-controlling interest	<b>8,500</b>	–
Amount due to the chairman of the Company	–	583
Financial liabilities measured at amortised cost	<b>187,777</b>	141,098
Advances from customers	<b>16,593</b>	12,676
Value added tax and other tax levies payable	<b>460,891</b>	461,046
	<b>665,261</b>	614,820

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 15 TRADE AND OTHER PAYABLES (continued)

The following is an aging analysis of the trade payables based on date of receipt of goods as at the end of the reporting period:

	<b>As at 30 June 2012 RMB'000 (unaudited)</b>	As at 31 December 2011 RMB'000 (audited)
Within 1 month or on demand	2,161	546
After 1 month but within 3 months	77	–
After 3 months but within 6 months	36	5,293
After 6 months but within 1 year	5,518	–
	<b>7,792</b>	5,839

### 16 INTEREST-BEARING BORROWINGS

	<b>As at 30 June 2012 RMB'000 (unaudited)</b>	As at 31 December 2011 RMB'000 (audited)
Current		
Short-term bank loans, secured	80,000	–
Non-current		
Senior note, secured	1,119,924	1,124,833
Total	<b>1,199,924</b>	1,124,833

The interest-bearing borrowings were repayable as follows:

	<b>As at 30 June 2012 RMB'000 (unaudited)</b>	As at 31 December 2011 RMB'000 (audited)
Within 1 year	80,000	–
More than 2 years but not more than 5 years	1,119,924	1,124,833
Total	<b>1,199,924</b>	1,124,833

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 16 INTEREST-BEARING BORROWINGS (continued)

All of the interest-bearing borrowings were carried at amortised cost.

At 30 June 2012, the bank loans bear interest ranged from 6.31% to 7.216% per annum and are secured by a guarantee from a subsidiary and certain forestry ownership certificates.

The senior notes ("Senior Notes") with aggregate principal amount of US\$300,000,000 were issued on 17 November 2010 and repayable on 17 November 2015. As at 30 June 2012, the Senior Notes carried interest at the rate of 10.25 per annum (31 December 2011: 10.25% per annum) and with the outstanding principal amount of US\$180,000,000 (31 December 2011: US\$180,000,000) (the interest rate per annum was changed from 7.75% to 10.25% on 15 August 2011 due to the amendments of the indenture).

The 10.25% Senior Notes due 2015 were secured by the shares of the Company's subsidiaries incorporated in Hong Kong and BVI, and were subject to the fulfilment of certain financial and non-financial covenants, as commonly found in lending arrangements in high yield senior notes.

At any time on or after 17 November 2013, the Company may redeem the Senior Notes in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on 17 November of any year set forth below:

<b>Period</b>	<b>Redemption Price</b>
2013	103.875%
2014	101.9375%

At any time prior to 17 November 2013, the Company may at its option redeem the Senior Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Senior Notes plus an applicable premium as of, and accrued and unpaid interest, if any, to, the redemption date.

The Company will give not less than 30 day's nor more than 60 day's notice of any redemption.

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 16 INTEREST BEARING BORROWINGS (continued)

The Senior Notes contain a liability component and an early redemption options:

- (i) Liability component represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives.

The interest charged for the period is calculated by applying an effective interest rate of approximately 10.85% per annum (six months ended 30 June 2011: 8.24% per annum) to the liability component of Senior Notes.

- (ii) Early redemption options are regarded as embedded derivative not closely related to the host contract. The fair value of the early redemption options was zero as at 30 June 2012 and 31 December 2011.

### 17 DIVIDENDS

- (a) Dividends payable to owners of the Company attributable to the prior financial year, approved and paid during the interim period:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>RMB'000</b>	RMB'000
Special dividend in respect of the previous financial year, approved and paid during the period, of HK2.54 cent (RMB2.06 cent) per ordinary share	<b>63,124</b>	–

- (b) The Board does not recommend the payment of dividends attributable to the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 18 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 5 November 2009, the Group established a share option scheme that entitles key management personnel and senior employees to purchase shares in the Company. On 7 September 2010, the Group granted 42,750,000 options to a director, senior management and key employees at a consideration of HK\$1 per individual. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares. The option shall lapse on the date the grantee ceases to be an employee of the Group for any reason.

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

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

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

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 18 EQUITY-SETTLED SHARE-BASED TRANSACTIONS (continued)

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

	<b>Six month ended 30 June 2012</b>	
	<b>Weighted average exercise price</b>	<b>Number of options</b>
	HK\$	'000
Outstanding at the beginning of the period	3.23	8,500
Forfeited during the period	3.23	(1,250)
Outstanding at the end of the period	3.23	7,250
Exercisable at the end of the period	–	–

The options outstanding at 30 June 2012 had an exercise price of HK\$3.23 and a weighted average remaining contractual life of approximately 8.2 years.



## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 19 MATERIAL RELATED PARTY TRANSACTIONS

#### (a) Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Company's directors and certain of highest paid employees are as follows:

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Short-term employee benefits	5,246	5,658
Retirement benefits	10	46
Equity compensation benefits	843	1,048
	<b>6,099</b>	6,752

#### (b) Financing arrangements

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
	Advance from a director	–
Advance from a non-controlling interest	<b>8,500</b>	–

Note:

The advance from a director and a non-controlling interest are unsecured, interest free and have no fixed repayment term.

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 19 MATERIAL RELATED PARTY TRANSACTIONS (continued)

#### (c) Other related party transactions

	<i>Note</i>	<b>Six months ended 30 June 2012 RMB'000 (unaudited)</b>
Rental expenses paid to a related party	<i>(i)</i>	<b>45</b>

Notes:

- (i) The Group paid rental expenses to Mr. Xiao Hui Bo ("Mr. Xiao"), a senior management member of a subsidiary, for leasing of an office from Mr. Xiao.
- (ii) During the six months ended 30 June 2012, the Group paid the rental expenses amounted to RMB1,050,000 on behalf of Beijing Century Wall Culture & Arts Co., Ltd. ("Beijing Century"). Mr. Li Kwok Cheong, the Chairman of board of directors, and his wife hold 100% equity interest in Beijing Century. Such receivable was fully settled by Beijing Century before the end of the reporting period.

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 20 ACQUISITION OF SUBSIDIARIES

On 11 January 2012, Creation Power Group Limited ("Creation Power") a wholly-owned subsidiary of the Company entered into an agreement (the "Agreement") with an independent third party (the "Vendor") to purchase 70% equity interest in Buildrich Limited ("Buildrich") and its subsidiaries (together as "Buildrich Group") at a total consideration of RMB112,000,000. The acquisition was completed on 27 April 2012. Buildrich is an investment holding company and its indirectly held subsidiary, Manzhouli Triple Success Co., Ltd. ("Triple Success"), is engaged in the provision of wood processing services for timber logs in the PRC. Through the acquisition, the Group is able to expand its business to downstream operation. Pursuant to the Agreement, the consideration for the acquisition shall be paid in cash as follows:

	RMB'000
Within 10 days upon signing of the Agreement	11,200
Within 10 days upon completion	44,800
Within 180 days upon signing of the Agreement*	28,000
Within 360 days upon signing of the Agreement*	28,000
<b>Total cash consideration</b>	<b>112,000</b>

- \* If the completion cannot take place before 31 March 2012, the payment date will be deferred to a date mutually agreed between the Seller and Creation Power. The prepayment shall be refunded if the acquisition is not completed or the Agreement is terminated. As the transaction was completed on 27 April 2012, the Seller and Creation Power agreed that the third payment and the last payment dates were changed to 180 days and 360 days from 27 April 2012 respectively.

The subsidiaries acquired during the period ended 30 June 2012 contributed RMB5,019,000 to the Group's revenue and RMB2,923,000 to the Group's loss for the period. If the acquisition had been completed on 1 January 2012, the Group's revenue for the period ended 30 June 2012 would have been RMB40,347,000 and loss for the period would have been RMB105,533,000. The proforma information is for illustration purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 20 ACQUISITION OF SUBSIDIARIES (continued)

#### Identifiable assets and liabilities assumed

	<b>Acquiree's carrying amount before combination</b>	<b>Fair value adjustment</b>	<b>Provisional fair value</b>
	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	166,930	(30,577)	136,353
Lease prepayments	2,639	18,495	21,134
Deferred tax assets	–	3,021	3,021
<b>Current assets</b>			
Work in progress	11,822		11,822
Trade and other receivables			
– Trade receivables	17		17
– Prepayments	2,677		2,677
	2,694		2,694
Tax recoverable	1,923		1,923
Cash and cash equivalents	18,682		18,682
<b>Current liabilities</b>			
Trade and other payables			
– Trade payables	(10,816)*		(10,816)*
– Other payables and accruals	(1,383)*		(1,383)*
– Advances from customers	(8,025)		(8,025)
	(20,224)		(20,224)
Loan from Creation Power	(11,162)		(11,162)
<b>Total net assets identified</b>	<b>173,304</b>	<b>(9,061)</b>	<b>164,243</b>

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 20 ACQUISITION OF SUBSIDIARIES (continued)

#### Identifiable assets and liabilities assumed (continued)

The financial information as disclosed above represented the financial information of Buildrich Group as of 27 April 2012.

The receivables acquired in this transaction with a fair value of RMB17,000 had gross contractual amounts of RMB17,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RMBNil.

\* Net of a total amount of RMB19,699,000 borne by the former shareholders.

As at the date of approval of these financial statements, the Group has not finalised the fair value assessment for the acquiree's identifiable assets, liabilities and contingent liabilities as at the date of acquisition. The relevant fair value of net assets acquired stated above is arrived at on a provisional basis awaiting the finalisation of identification of and fair values of identifiable assets and liabilities of Buildrich Group. Hence, the provisional gain on a bargain purchase may be subject to significant changes in the future period when these valuations have been finalized.

	RMB'000
<b>Total consideration satisfied by:</b>	
Cash consideration paid	56,000
Consideration payable for acquisition of subsidiaries	56,000
	<u>112,000</u>
<b>Provisional gain on a bargain purchase of subsidiaries</b>	RMB'000
Consideration transferred	112,000
Plus: non-controlling interests (30%)	49,273
Less: provisional fair value of identifiable net assets acquired	<u>(164,243)</u>
Provisional gain on a bargain purchase of subsidiaries	<u>(2,970)</u>

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 20 ACQUISITION OF SUBSIDIARIES (continued)

#### Identifiable assets and liabilities assumed (continued)

The provisional gain on a bargain purchase of subsidiaries is mainly attributable to the immediate exit opportunity offered to the Vendor and the ability of the Group in negotiating the agreed terms of the transactions with the Vendor.

#### Net cash outflow on acquisition of the subsidiaries:

	RMB'000
Cash consideration	56,000
Cash and cash equivalents in subsidiaries acquired	(18,682)
Net cash outflow on acquisition of the subsidiaries	37,318

#### Non-controlling interests

Non-controlling interests recognized at the acquisition date were measured by reference to the non-controlling interests' proportionate share of the acquiree's identifiable net assets.

The Group incurred acquisition-related costs of approximately RMB279,000 being legal and professional fees and other charges which have been excluded from the cost of acquisition.

### 21 COMMITMENTS

- a) Capital commitments outstanding at 30 June 2012 not provided for in the financial statement are as follows:

	As at 30 June 2012 RMB'000 (unaudited)	As at 31 December 2011 RMB'000 (audited)
Contracted but not provided for: – acquisition of forests	156,727	157,937

## Notes to the Condensed Interim Financial Report (unaudited) (Continued)

for the six months ended 30 June 2012

### 21 COMMITMENTS (continued)

a) Capital commitments outstanding at 30 June 2012 not provided for in the financial statement are as follows: (continued)

The above capital commitments represented outstanding commitments in respect of contracts signed during the year ended 31 December 2011 and six months ended 30 June 2012 and did not include outstanding commitments, if any, for contracts signed in previous years because the directors considered that the Group has accounted for all the payables for forest acquisition and there were no capital commitments outstanding in respect of the contracts signed in previous years for forest acquisition.

(b) At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	<b>As at 30 June 2012 RMB'000 (unaudited)</b>	As at 31 December 2011 RMB'000 (audited)
Within 1 year	<b>6,158</b>	8,237
After 1 year but within 5 years	<b>7,167</b>	10,781
After 5 years	<b>696</b>	1,044
	<b>14,021</b>	20,062

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 eight years, with no option to renew the leases. None of the leases includes contingent rentals.