江晨國際控股有限公司
Jiangchen International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01069)

2012 Annual Report

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Cai Shuiyong *(Chairman and Chief Executive Officer)*
Mr. Cai Shuiping *(Resigned on 14 February 2013)*
Mr. Lei Zuliang *(Appointed on 1 August 2012)*

Non-executive Director:

Professor Liu Zhikun *(Appointed on 5 September 2012)*

Independent Non-executive Directors:

Ms. Chan Ling
Mr. Liu Jianlin
Mr. Long Weihua *(Appointed on 19 March 2012)*
Mr. Shen Guoquan *(Resigned on 19 March 2012)*

AUDIT COMMITTEE

Mr. Liu Jianlin *(Chairman)*
Mr. Long Weihua *(Appointed on 19 March 2012)*
Ms. Chan Ling
Mr. Shen Guoquan *(Resigned on 19 March 2012)*

REMUNERATION COMMITTEE

Ms. Chan Ling *(Appointed as Chairman on 16 March 2012)*
Mr. Cai Shuiyong
(Resigned as Chairman on 16 March 2012)
Mr. Long Weihua *(Appointed on 19 March 2012)*
Mr. Shen Guoquan *(Resigned on 19 March 2012)*

NOMINATION COMMITTEE

Ms. Chan Ling *(Appointed as Chairman on 16 March 2012)*
Mr. Cai Shuiyong
(Resigned as Chairman on 16 March 2012)
Mr. Long Weihua *(Appointed on 19 March 2012)*
Mr. Shen Guoquan *(Resigned on 19 March 2012)*

COMPLIANCE OFFICER

Mr. Cai Shuiyong

COMPANY SECRETARY

Mr. Kwong Ping Man *CPA, ACIS, ACS*

AUTHORIZED REPRESENTATIVES

Mr. Cai Shuiyong
Mr. Kwong Ping Man

INDEPENDENT AUDITORS

SHINEWING (HK) CPA Limited
Certified Public Accountants

REGISTERED OFFICE

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 2001-2005, 20th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Level 4, No. 20
Zheng Da Street
Wannian County
Jianxi Province
The People's Republic of China

CORPORATE INFORMATION (continued)

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
PO Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

Bank of China, Wannian Branch
Wannian County
Jiangxi Province
The People's Republic of China

COMPANY WEBSITE

www.jcholding.com

STOCK CODE

01069

FINANCIAL HIGHLIGHTS

ANNUAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2012

- Turnover for the financial year ended 31 December 2012 amounted to Renminbi ("**RMB**") 92.4 million (2011: RMB184.8 million), representing a decrease of approximately 50.0 % as compared with the corresponding period in 2011.

- Loss and total comprehensive expenses attributable to the owners of the Company for the financial year ended 31 December 2012 amounted to approximately RMB20.0 million (Profit and total comprehensive profit attributable to the owners of the Company of 2011: approximately RMB0.4 million), representing a decrease of approximately 4,975% as compared with the corresponding period in 2011.

- Basic and diluted loss per share for the financial year ended 31 December 2012 amounted to RMB0.0542 (Basic and diluted earnings per share of 2011: RMB0.0011).

- The board (the "**Board**") of directors (the "**Directors**") does not recommend the payment of a final dividend for the financial year ended 31 December 2012 (2011: nil).

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present to our valued shareholders and investors the annual report (the "**Annual Report**") of Jiangchen International Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") for the financial year ended 31 December 2012.

The year of 2012 saw a gradual strengthening of activity from a lackluster start. However, the recovery of the world economy was interrupted by new risks relating to the viability of the Eurozone and potential fiscal cliff in the United States of America. In the People's Republic of China ("**China**" or the "**PRC**"), the economic growth has been slowing down, as well as the impacts by the fluctuation of the price of raw materials and the rise of the statutory minimum wages, the garment manufacturing business in China remained difficult and challenging for the year of 2012.

Our principal business is the manufacturing and wholesaling of apparels on an original equipment manufacturing ("**OEM**") basis in the PRC during the financial year ended 31 December 2012. The factories in China faced the continuous tough period from escalating manufacturing costs, lacking of skilled sewing workers and keen competition both domestically and from overseas. As a result, the garment business of the Group was adversely affected for the financial year ended 31 December 2012.

The PRC market remained the most important market segment of the Group, accounting for approximately 100% of the Group's total turnover. As at 31 December 2012, the Company has a domestic distribution network consisting of two self-owned stores, six franchise shops and forty distribution outlets across Jiangxi Province, Hunan Province, Fujian Province and Guangxi Province for the sales and marketing of its own design products.

As discussed in the 2012 interim report, the Company is seeking for the new business opportunities. Apart from the continuous engagement of the garment business, as disclosed in the announcement dated 21 May 2012, the Company has entered into the sales and purchase agreement regarding to the acquisition of Rongxuan Forestry Investment Holdings Limited ("**Rongxuan**"), of which its wholly-owned subsidiary is principally engaged in the operation and management of the forest lands in Dali, Yunnan Province, with a total site area of approximately 3,530 Chinese Mu. The acquisition of Rongxuan was completed on 11 July 2012.

On 10 December 2012, as disclosed in the announcement on the even date, the Company has entered into an acquisition agreement with a vendor, as supplemented by the two supplemental agreements dated 2 January 2013 and 26 March 2013, respectively, pursuant to which, the Company has conditionally agreed to acquire China Timbers Limited, of which its wholly-owned subsidiary is principally engaged in the operation and management of the forest lands in Jiange County, Sichuan Province, with a total site area of approximately 21,786 Chinese Mu. As at the date of this Annual Report, the acquisition of China Timbers Limited and its subsidiaries has yet been completed.

CHAIRMAN'S STATEMENT (continued)

The global economic outlook for 2013 is mixed. Developed economy government deficits remain a concern; the Eurozone is undergoing contraction; and competitive currency devaluations or trade restrictions are possible. On the other hand, China seems to have achieved a "soft landing" after the investment-led growth of the last few years, and the economy of United States of America is showing some early signs of recovery. We believe the new Chinese government will maintain the continuity of macro-economic policies, and continue to implement a prudent monetary and proactive fiscal policy, in order to preserve the economic growth while maintaining stability.

Given the degree of uncertainty in 2013, in response to challenging external operating environment and intensified internal competition, we will continue to exercise caution in the management of current garment business operations as well as the newly forestry management business. At the same time, the Group is continuing to explore new business opportunities to maintain sustainable development for optimization of the Group's business portfolios.

In conclusion, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, business partners and others who have extended their invaluable support to the Group and my fellow directors and all staff for their considerable contributions to the Group.

On behalf of the Board
Cai Shuiyong
Chairman

Jiangxi Province, The PRC, 28 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

The Garment Business

The Group is principally engaged in the (i) manufacturing and wholesaling of apparels on an OEM basis and (ii) manufacturing and sales of branded products ("**Brand Business**") in the PRC. The apparels produced by the Group can be broadly categorized into cotton and sweat jacket, sportswear and leisurewear, trousers and children garment. The PRC market remained the most important market segment of the Group. During the financial year, the turnover of the Group generated from its garment business amounted to approximately RMB92.4 million.

The Forestry Management Business

During the financial year ended 31 December 2012, the Group pursued the opportunities of acquiring forest lands. As at 31 December 2012, the long-lease forest lands acquired by the Group were approximately 3,530 Chinese Mu and are located in Dali, Yunnan Province, the PRC. The financial results and positions from the forestry management business were consolidated into the Group's accounts. The Group's business operation in the forestry management business was carried out by Rongxuan group.

The lease period of the forest lands is 65 years. The Group has already received the forestry certificates or other title documents in respect of the area of 3,530 Chinese Mu of the forest lands, and has been applying for the approvals of logging quota of 3,000 cubic meters from the relevant forestry bureaus in Yunnan Province in 2013. The trees in the aforesaid forest lands mainly consist of oak trees, Pinus Yunnanensis and other trees. As at the date of this Annual Report, the Group has just started the preliminary stage of the forestry management business and has yet started any harvesting works in the aforesaid forests and therefore, nil revenue was recorded for the year ended 31 December 2012.

FINANCIAL REVIEW

Turnover

During the financial year ended 31 December 2012, the Company recorded a turnover of approximately RMB92.4 million, representing an approximately 50.0% decrease as compared to approximately RMB184.8 million in 2011. Such significant drop was mainly due to the slowdown of both domestic and overseas demand and the fierce competition in garment industry in the PRC.

Turnover from the Company's OEM apparels sold to domestic import and export companies and overseas trading companies for export for the year ended 31 December 2012 was approximately RMB74.0 million (for the year ended 31 December 2011: RMB148.6 million), which is approximately 50.2% lower than that for the corresponding period in 2011. Such decrease was mainly attributable to the impact by the unstable global economic conditions which slowed down the export of the Group's apparel products.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

The Company also distributes its own brand apparels to local chain stores, its franchise stores and through its wholesale outlets in the PRC. Turnover from the distribution of the Company's brand apparels for the year ended 31 December 2012 was approximately RMB18.5 million (for the year ended 31 December 2011: RMB36.2 million), which is approximately 48.9% lower than that for the corresponding period in 2011.

In terms of product mix, turnover of OEM products represented approximately 80.0% of the total turnover (for the year ended 31 December 2011: 80.4%) while turnover of the brand products only accounted for approximately 20.0% (for the year ended 31 December 2011: 19.6%).

For the year ended 31 December 2012, no turnover was recorded for the forestry management business.

Gross Profit/Loss

The Group recorded a gross loss of approximately RMB0.88 million for the year ended 31 December 2012 (gross profit for the year ended 31 December 2011: RMB12.9 million), representing a decrease of approximately 106.8% as compared to that for the corresponding period in 2011.

Cost of sales mainly included costs incurred from the raw materials, direct labour costs and manufacturing overheads. The decrease in Group's cost of sales for the year of 2012 was mainly a result of the decreased costs of raw materials owing to the drop of the sales volumes in apparel products.

The gross margin, calculated by dividing gross profit by turnover, is not applicable for the financial year ended 31 December 2012 (2011: 7.0%) as gross loss was recorded. The result of gross loss in 2012 was mainly attributable to the decreased sales volume of the Group's apparel products as a result of fierce competition in the garment industry and the weaker market sentiment in the PRC, and the direct labour costs maintained owing to the statutory minimal wages policy in the PRC.

Change in fair value of plantation forest assets

During the year ended 31 December 2012, the Group has recognised a change of fair value of planation forest assets of approximately RMB1.8 million (2011: nil).

Selling and Distribution Costs

The selling and distribution costs of the Group decreased from approximately RMB1.1 million for the year ended 31 December 2011 to approximately RMB0.8 million for the year ended 31 December 2012, representing a decrease of approximately 27.3%. The decrease in selling and distribution costs was mainly attributable to the decrease of the transportation costs owing to the decreased sales volumes of the Group's apparel products.

Administrative Expenses

The administrative expenses of the Group have decreased by approximately 41.4% from approximately RMB9.9 million for the year ended 31 December 2011 to approximately RMB5.8 million for the year ended 31 December 2012. The decrease in administrative expenses was mainly due to the decreased in the amount of staff benefits, and the decrease in the legal and professional fees.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Impairment loss recognised in respect of trade receivables

During the year ended 31 December 2012, the Group has recognised an impairment loss in respect of trade receivables of approximately RMB11.1 million (2011: nil) as such amount was under dispute and have already passed the credit period.

Finance Costs

The finance costs were related to the interests on the secured bank borrowings wholly repayable within one year for the purpose of internal working capital of the Group, as well as the interest expenses in relation to the zero coupon convertible bonds for the acquisition of Rongxuan group on 11 July 2012.

Income Tax Expenses

For the year ended 31 December 2011, the effective tax rate of the Group was approximately 73.2%. However, the effective tax rate of the Group for the year ended 31 December 2012 is 0% because no income tax expense was incurred as the Group suffered a net loss before tax.

Profit/Loss and Total Comprehensive Income/Expenses Attributable to Owners of the Company

As a results of the above changes, the Company has recorded a loss and total comprehensive expenses attributable to owners of the Company of approximately RMB20.0 million for the year ended 31 December 2012, while the profit and total comprehensive profit attributable to shareholders of the Company of approximately RMB0.4 million for the year ended 31 December 2011.

Basic and Diluted Earnings/Loss per Share

Basic and diluted loss per share for the year ended 31 December 2012 amounted to RMB0.0542 (the basic and diluted earnings per share of 2011: RMB0.0011).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group employed a total of 981 employees (As at 31 December 2011: 1,096). Total staff costs for the year under review, including Directors' remuneration and the termination benefits, amounted to approximately RMB23.8 million (2011: approximately RMB40.7 million). The Group's remuneration policies are in line with the prevailing market standards and are determined on the basis of performance and experience of individual employee. Other employee benefits include contributions to social insurance scheme.

The Group has adopted a share option scheme pursuant to which the Directors may grant options to individuals including Directors, employees or consultants of the Group to acquire shares of the Company. The Directors consider that the share option scheme assists in recruiting and retaining high calibre executives and employees.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows. As at 31 December 2012, the Group had total assets of approximately RMB93.3 million and net assets of approximately RMB73.9 million. The Group's cash and bank balances as at 31 December 2012 amounted to approximately RMB26.2 million. The Group obtained a secured bank loan amounting to RMB10,000,000 as at 31 December 2011, and this secured bank loan had been settled during the first half of 2012. The bank borrowing carried variable interest rate with reference to The People's Bank of China Prescribed Interest Rate with 15% mark-up per annum for the period. The bank borrowing was secured by certain assets of the Group as set up in note 31. As at 31 December 2012, there were unutilised banking facilities of HKD190,000,000 (equivalent to approximately RMB154,831,000) (2011: RMB5,000,000).

On 10 December 2012, the Company entered into the acquisition agreement with Mr. Du Jianjun ("**Mr. Du**"), as supplemented by two supplemental agreements dated 2 January 2013 and 26 March 2013, pursuant to which the Company has conditionally agreed to acquire the sale share, representing the entire issued share capital of the China Timbers Limited (the "**Proposed Acquisition**") at a consideration of HKD280,000,000. The Company will settle the consideration of HKD136,000,000 in cash, with the remaining by issuing a promissory note with the principal amount of HKD144,000,000 upon the completion of the Proposed Acquisition.

On 15 November 2012, in order to provide additional funding to finance the Proposed Acquisition, the Company entered into the subscription agreement with Maple Reach Limited ("**Maple Reach**"), pursuant to which Maple Reach agreed to subscribe for the pledged notes in the amount of HKD190,000,000 to be issued by the Company. According to the aforesaid subscription agreement, Well Bright Group Limited ("**Well Bright**"), the controlling shareholder of the Company, acted as the guarantor, and China Construction Bank (Asia) Corporation Limited acted as the custodian.

On 22 May 2012, in order to provide additional general working capital to finance the Group's existing projects in the PRC and future corporate and acquisition exercise, the Company entered into a placing agreement with an independent placing agent, pursuant to which the placing agent would procure independent placees to subscribe for the convertible bonds to be issued by the Company with an aggregate principal amount of HKD38,600,000. However, the aforesaid placing agreement lapsed on 22 November 2012 since certain conditions precedent have not been fulfilled on the long stop date. Accordingly, the Company has not issued any convertible bonds under the aforesaid placing agreement.

Taking into account the cash reserves and internal generated cash flows from its operating activities, the Group's financial position is healthy, positioning the Group advantageously to expand its core business and other opportunities in order to achieve its business objectives.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

PLEDGE ON ASSETS

As at 31 December 2012, the Group has pledged certain of its building and leasehold lands to secure banking facilities granted to the Group. The carrying values of the assets pledged are as follows:

	31 December 2012 RMB'000	31 December 2011 RMB'000
Buildings	1,403	10,228
Leasehold lands	1,081	6,405
	2,484	16,633

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities (2011: nil).

FOREIGN EXCHANGE EXPOSURE ANF RELATED HEDGES

The Group's transactions are mainly denominated in Hong Kong dollars and RMB. Therefore, the Group is exposed to exchange rate risk. The majority of the Group's cash and bank balances are also denominated in these two currencies. During the financial year ended 31 December 2012, the Group did not experience significant exposure to the exchange rate and interest rate fluctuations. Accordingly, the Group has not implemented any foreign currency hedging policy at the moment. However, the management of the Group will constantly review the economic situation, development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

GEARING RATIO

The gearing ratio of the Group, based on total borrowings to the equity (including all capital and reserves) of the Group, decreased to 0% as at 31 December 2012 (31 December 2011: 12.3%).

CAPITAL STRUCTURE

The capital of the Group comprises only ordinary shares. As at 31 December 2012, the total number of the ordinary shares of the Group in issue was 370,000,000 shares (31 December 2011: 370,000,000). The total equity attributable to the owners of the Company was approximately RMB73.9 million as at 31 December 2012 (31 December 2011: approximately RMB81.4 million).

On 18 January 2013, the Company entered into the warrant subscription agreements with seven independent subscribers, pursuant to such agreements the Company agreed to issue, and the seven subscribers agreed to subscribe for an aggregate of 22,000,000 unlisted warrants at the issue price of HKD0.01 per warrant. Pursuant to the warrant subscription agreements, the holders of the unlisted warrants will be entitled to subscribe for up to 22,000,000 new shares at the initial subscription price of HKD0.99 per share for a period of 3 years commencing from the date of the issuance of the warrants.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

On 11 July 2012, the Company has issued convertible bonds with principal amount of HKD21,300,000 as the consideration of the acquisition of 100% equity interest in Rongxuan. As at the date of this Annual Report, no new shares have been allotted and issued by the conversion of the convertible bonds.

CONVERTIBLE BONDS

Zero coupon convertible bonds in the principal amount of HKD21,300,000 at the conversion price of HKD0.81 which can be converted into 26,296,296 shares was issued on 11 July 2012 as the consideration for the acquisition of Rongxuan. The details are discussed under the section "Significant Investment Held and Material Acquisitions and Disposals" below.

SIGNIFICANT INVESTMENT HELD AND MATERIAL ACQUISITIONS AND DISPOSALS

On 10 December 2012, the Company made an announcement regarding a very substantial acquisition. The Company and Mr. Du entered into the acquisition agreement, as supplemented by two supplemental agreements dated 2 January 2013 and 26 March 2013, pursuant to which, among other things, the Company has conditionally acquire from Mr. Du the sale shares, representing the entire issued share capital of China Timber Limited at a consideration of HKD280,000,000. As at the date of this Annual Report, the acquisition of China Timber Limited has yet been completed. Details of the acquisition of China Timber Limited were disclosed in the announcements dated 10 December 2012, 2 January 2013 and 26 March 2013, respectively.

On 27 July 2012, Sino Prosper (Asia) Limited ("**Sino Prosper**"), a wholly-owned subsidiary of the Company, entered into the equity transfer agreement whereby Sino Prosper agreed to dispose of and Speedy Full Enterprise Limited ("**Speedy Full**") agreed to purchase from 100% equity interest in 江西泓峰紡織有限公司 (Jiangxi Hongfeng Textile Company Limited*) ("**Jiangxi Hongfeng**") at the consideration of RMB13,800,000 (equivalent to approximately HKD16,840,000). On 30 November 2012, Sino Prosper and Speedy Full entered into the supplemental agreement pursuant to which the long stop date has been extended to 31 December 2012. Details of the disposal of Jiangxi Hongfeng and the extension of the long stop date were disclosed in the announcement dated 27 July 2012 and 30 November 2012, respectively. The disposal of Jiangxi Hongfeng has been completed in December 2012.

On 21 May 2012, the Company and Ms. Huang Dongxiu entered into the sales and purchase agreement, pursuant to which the Company has conditionally agreed to acquire, and Ms. Huang Dongxiu has conditionally agreed to sell, the sale shares, representing 100% of the issued share capital of Rongxuan at the consideration of HKD21,300,000. The acquisition of Rongxuan has been completed on 11 July 2012. Details of the acquisition of Rongxuan were disclosed in the announcement dated 21 May 2012.

Save as disclosed above, there were no significant investment held or material acquisitions and disposals of subsidiaries for the year ended 31 December 2012.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except for the Proposed Acquisition discussed above, the Group had no other future plans for material investments or capital assets as at 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

SUMMARY OF FIVE-YEAR FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out as follows:

Results

	For the year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	144,164	146,003	202,232	184,804	**92.438**
Gross profit/(loss)	18,833	20,165	32,823	12,884	**(884)**
Profit/(loss) before tax	17,393	15,698	26,706	1,531	**(20,037)**
Profit/(loss) attributable to owners of the Company	17,393	15,072	23,081	411	**(19,998)**
Basic earnings/(loss) per share (RMB)	0.047	0.042	0.062	0.0011	**(0.0542)**

Assets and Liabilities

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	8,116	17,082	23,749	22,432	**26,699**
Current assets	40,811	53,641	73,645	74,749	**66,627**
Current liabilities	14,508	9,268	16,383	15,759	**6,864**
Net assets	34,419	61,455	81,011	81,422	**73,868**

PROSPECT AND OUTLOOK

The year of 2012 witnessed a continuously volatile global economic environment. The global political tensions, the lingering of the Eurozone sovereign debt crisis threats and the potential fiscal cliff in the United States of America affected the global economy heavily. The slowdown in economic growth in various emerging countries, including the PRC, the world's second largest economy, and the harsh trading environments in both developed and development countries made the global economy persistently unstable and uncertain in the year of 2012. The fluctuation of the price of raw materials and the rise of the statutory minimum wages in the PRC caused the adverse impact on the gross margin of the Group's operation for the financial year of 2012.

Sluggish growth in Europe and the United States of America, and the slowdown in the economy of the PRC will be expected to hamper the economic recovery pace and make the global financial market uncertain in 2013. The Group is therefore expecting a very challenging year of 2013. Accordingly, the Group will continue to exercise stringent control over production costs and improve its manufacturing processes for the garment business segment in order to minimize the negative effects of the apparel operation of the Group. Nevertheless, the existing garment business segment may not demonstrate a promising growth trend in the future.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

As discussed in the 2012 interim report of the Company, the Group will re-structure its garment business owing to the current adverse conditions of garment industry in the PRC. The Company is seeking for new business opportunities. Apart from the acquisition of Rongxuan in the first half of 2012 and completion on 11 July 2012, the Company has entered into the acquisition agreement regarding the proposed acquisition of China Timbers Limited on 10 December 2012, in which its wholly-owned subsidiary is principally engaged in the operation and management of the forest lands in Jiange County, Sichuan Province, with a total site area of approximately 21,786 Chinese mu.

2012 has been a year of transition. The Company is entering into a period of change and development. The Group is moving to focus on the forestry management business. The Group is optimistic about the prospect of forestry management business in the PRC as China has emerged as the world's largest wood-based panel producer and consumer. As a result, the growing demand of the wood panel and related products is anticipated in the long-run. The Group is willing to invest for the long-term and continue to explore opportunities through merger and acquisitions of forest land resources and timber resources, and capitalize on business opportunities to achieve steady and sustainable growth with a view to generate more satisfactory returns to its shareholders. Furthermore, with the implementations of the projects regarding the development of forestry according to the "Twelfth-Five Years Plan" by the PRC government, the Group's forestry management business development will be able to enjoy more business opportunities accordingly.

Continuing with the spirit of perseverance while facing the contemporary challenges in the year of 2013, the Group shall strive to explore more potential opportunities cautiously for the benefit of our valued shareholders and investors. Such entering into of the new business need to be seen as a part of a continuing process of moving the Company forward, making changes when necessary to ensure long-term stability and sustainable profitability.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Executive Directors

Mr. Cai Shuiyong (蔡水泳) ("Mr. Cai"), aged 46, is an executive Director, the chairman of the Board and chief executive officer of the Group. He is responsible for the overall strategic planning and direction of the Group. Mr. Cai has over 15 years of experience in the garment industry. He had been the general manager of Quanzhou Qiaomei Garment Co., Ltd., a domestic enterprise established in the PRC, from 1995 to 2005. Since 2006, he has been a director of Wannianxian Xiefeng Textiles and Garments Co., Ltd. ("**Xiefeng Textile**"), Jiangxi Province Wannianxing Textiles and Dress Co., Ltd. ("**Wannianxing Textile**") and Wannian County Xiangyun Fibers and Fabrics Co., Ltd. ("**Xiangyun Fiber**"). He is also a director of Newshine International Limited ("**Newshine**") and Sino Prosper. He was the director of Jiangxi Hongfeng which the disposal of Jiangxi Hongfeng was completed in December 2012. He is the spouse of Ms. Cai Shuyan, one of the Group's senior management.

Mr. Lei Zuliang (雷祖亮) ("Mr. Lei"), aged 61, is an executive Director of the Group. He completed his diploma study in politics at Wuhan University in the PRC in 1988. He served in Chinese military from 1968 to 1990 and was promoted to Lieutenant-Colonel in 1988. From 1990 to 1996, he worked for Dongfeng Motor Corporation. From 1996 to 2001, he was the party secretary general of the department of general affairs and department of infrastructure construction of Hubei University of Automotive Technology. Since 2001, he has held senior positions in various commercial firms. He is currently the president of Yuepengda Forestry (Shenzhen) Company Limited, a wholly owned subsidiary of the Company. He has extensive experiences in corporate business administration and management.

Non-Executive Director

Professor Liu Zhikun (劉志坤) ("Professor Liu"), aged 56, is a non-executive Director of the Group. He graduated with a master's degree in timber logging and transportation at the Northeast Forestry University in the PRC in 1990 and graduated with a bachelor's degree in Central South University of Forestry and Technology in 1982. He is a professor, co-supervisor for doctoral candidates, supervisor for graduates and the vice president for National Engineering and Technology Research Center of Wood-based Resources Comprehensive Utilization in Zhejiang Agricultural and Forestry University. He has been teaching, researching and performing administrative management duties since 1990. Professor Liu's main research works focus on the efficient use of raw material resources, such as wood, bamboo, plywood and etc. He has completed various national and provincial level research projects, and possessed in-depth technical knowledge and achieved fruitful result in the forest industry.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT (continued)

Independent Non-Executive Directors

Ms. Chan Ling (陳靈) ("Ms. Chan"), aged 39, was appointed as an independent non-executive Director of the Group on 30 March 2011. She graduated from Macquarie University in Australia with a bachelor's degree in Commerce (Professional Accounting) in 1999 and from The University of Sydney in Australia with a master's degree in Commerce (Professional Accounting) in 2002. Ms. Chan is a member of the CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants with over 12 years of experience in finance and accounting. Ms. Chan served as the financial controller and company secretary of China Photar Electronics Group Limited (stock code: 8220) (now known as Bingo Group Holdings Limited) from January 2007 to July 2007 and has served as an accounting manager in China Travel Tours Transportation Development H.K. Ltd., a subsidiary of China Travel International Investment Hong Kong Limited (stock code: 308) since January 2009.

Mr. Liu Jianlin (劉建林) ("**Mr. Liu**"), aged 43, was appointed as an independent non-executive Director of the Group on 15 September 2009. He graduated at Fuzhou University in 1993, majoring in packaging engineering. Mr. Liu passed the national examination of registered accountants in December 1996 and is a PRC registered accountant. He is currently a partner and the manager of the audit department of Fujian Da Zheng Accounting Firm.

Mr. Long Weihua (龍衛華) ("**Mr. Long**"), aged 46, was appointed as an independent non-executive Director of the Group on 19 March 2012. He graduated with a master's degree in engineering at the Hunan University of the PRC in 1993 and also completed the Tsinghua capital management class (investment and financing stream) for presidents organized by the Research Institute of Tsinghua University in Shenzhen in 2011. Mr. Long has been a qualified engineer in the PRC since 1996. He has extensive experiences in project development, project investment and project management. Mr. Long is a project manager in the department of engineering of Shenzhen Yantian Port Group Co., Ltd since April 1996. He is a founder and the dean of general affairs of Shenzhen Lions Organization Bodhi branch (深圳獅子會菩提分會).

Senior Management

Ms. Cai Shuyan (蔡淑燕), aged 45, joined the Group in May 2006 and is the supervisor of Xiefeng Textile, Wannianxing Textile and Xiangyun Fiber and the responsible officer of Quanzhou Office. Ms. Cai Shuyan is the spouse of Mr. Cai Shuiyong.

Mr. Cai Jiabo (蔡家搏), aged 30, joined the Group in January 2005 and is a director of Wannianxing Textile, the general manager of Xiangyun Fiber and the marketing director of the Group. He obtained a Professional Certificate in English issued by University of Westminster in association with Management Development Institute of Singapore in 2003. Mr. Cai Jiabo is the son of Mr. Cai Shuiping, a first cousin of Mr. Cai Shuiyong.

Mr. Xiao Wei (肖偉), aged 41, joined the Group in January 2007 and is the production director of the Group. Before joining the Group, he had been one of the factory heads of Quanzhou Longquan Garment Co., Ltd., a domestic enterprise established in the PRC, from 2000 to 2006.

Ms. Wang Xiaohua (王小華), aged 41, joined the Group in January 2007 and is the chief financial controller of the Group. Before joining the Group, she had been an accountant of a domestic enterprise established in the PRC, from 1993 to 2006.

DIRECTORS' REPORT

The Board of Directors are pleased to present this Annual Report together with the audited financial statements of the Group for the financial year ended 31 December 2012.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 37 to the consolidated financial statements of this Annual Report. There were no significant changes in nature of Group's principal activities during the year. The Company has acquired the long-lease forest lands with approximately 3,530 Chinese Mu, which locate in Dali, Yunnan Province, the PRC. As at the date of this Annual Report, the Group has not yet started any harvesting works in the aforesaid forests.

An analysis of the Group's performance for the financial year ended 31 December 2012 by business and geographical segments is set out in note 8 to the consolidated financial statements of this Annual Report.

FINANCIAL RESULTS

The Group's financial results for the year ended 31 December 2012 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 36 to 98 of this Annual Report.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2012 attributable to the Group's major suppliers and customers are as follows:

	Percentage of the total purchases/sales accounted for (%)
Purchase	
– the largest supplier	7.5
– the five largest suppliers combined	27.9
Sales	
– the largest customer	32.3
– the five largest customers combined	80.7

None of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any material beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS' REPORT (continued)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the financial year ended 31 December 2012 are set out in note 15 to the consolidated financial statements of this Annual Report.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 25 to the consolidated financial statements of this Annual Report.

BORROWINGS

The Group has no secured bank borrowings as at 31 December 2012. Details of borrowings during the year are set out in note 23 to the consolidated financial statements of this Annual Report.

GROUP FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the past 5 financial years is set out in the section Summary of Five-Year Financial Information of this Annual Report. This summary does not form part of the audited financial statement.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial year ended 31 December 2012.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and the best knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2012.

RESERVES

Details of movements in the reserves of the Company and the Group during the financial year ended 31 December 2012 are set out in note 36 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company does not have any reserve available for distribution to owners (2011: RMB3.8 million).

DIRECTORS

The list of Directors during the year and up to the date of this Annual Report is set out in the Board Composition section of this Annual Report. Information about the Board, including members' appointments and retirements, and their interests in Company's shares, is set out in the Corporate Governance Report of this Annual Report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of Directors and Senior Management as at the date of this Annual Report are set out in the Biographical Information of Directors and Senior Management section of this Annual Report.

DIRECTORS' SERVICE AGREEMENT

None of the Directors, including those retired or to be re-elected at the forthcoming annual general meeting, has a service agreement which is not determinable by the Group within one year without the payment of compensation (other than statutory compensation).

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the directors and five individuals with highest emoluments are set out in note 12 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in any shares, underlying shares and debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

DIRECTORS' REPORT (continued)

(i) Long position in shares of the Company

Name of Director	Number of ordinary shares: Personal interests	Family interests	Corporate interests	Total	Percentage of issues share capital
Mr. Cai Shuiyong	–	–	179,450,000(1)	179,450,000	48.5%
Mr. Cai Shuiping	–	–	179,450,000(1)	179,450,000	48.5%

Note:

1. These shares are owned by Well Bright Group Limited ("**Well Bright**") which is owned 50% by Mr. Cai Shuiyong and 50% by Mr. Cai Shuiping. Therefore, each of Mr. Cai Shuiyong and Mr. Cai Shuiping is deemed to be interested in 179,450,000 shares held by Well Bright under the SFO.

(ii) Long position in ordinary shares of associated corporation

Name of Director	Name of associated corporation	Capacity/Nature	Number of securities held	Percentage of shareholding
Mr. Cai Shuiyong	Well Bright	Beneficial owner	1	50%
Mr. Cai Shuiping	Well Bright	Beneficial owner	1	50%

Save as disclosed above, as at 31 December 2012, 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 any of its associated corporations (within the meaning of Part XV of the SFO) which would be 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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2012, so far as is known to the Directors, the following persons (other than the Directors or chief executive 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 in accordance with the provision of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, were as follows:

Long position in shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Central Huijin Investment Ltd.	Corporate interest	186,850,000[(1)]	50.5%
China Construction Bank Corporation	Corporate interest	186,850,000[(1)]	50.5%
Well Bright	Beneficial owner	179,450,000	48.5%
Ms. Cai Shuyan	Interest of spouse	179,450,000[(2)]	48.5%
Ms. Sun Meige	Interest of spouse	179,450,000[(3)]	48.5%

Notes:

1. Central Huijin Investment Ltd. holds 57.15% interest in China Construction Bank Corporation, which in turn hold 100% interest in CCB International Group Holdings Limited, which in turn holds 100% interest in CCB Finance Holdings Limited, which in turn holds 100% CCB International (Holdings) Limited, which in turn holds 100% interest in CCB International Asset Management Limited, which in turn holds 100% interest in Maple Reach.

2. Mr. Cai Shuiyong beneficially owned 50% of Well Bright and Well Bright held 179,450,000 shares of the Company. Ms. Cai Shuyan is the spouse of Mr. Cai Shuiyong. Therefore, Ms. Cai Shuyan is deemed to be interested in all shares of the Company deemed to be held by Mr. Cai Shuiyong under the SFO.

3. Mr. Cai Shuiping beneficially owned 50% of Well Bright and Well Bright held 179,450,000 shares of the Company. Ms. Sun Meige is the spouse of Mr. Cai Shuiping. Therefore, Ms. Sun Meige is deemed to be interest in all shares of the Company deemed to be held by Mr. Cai Shuiping under the SFO.

Save as disclosed above, and as at 31 December 2012, the Directors of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' REPORT (continued)

FINAL DIVIDEND

The Board does not recommend the payment of an annual dividend for the financial year ended 31 December 2012 (2011: nil) and there is no closure of the registers of members accordingly.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest in, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading "Interests and Short Positions of the Directors in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

CONNECTED TRANSACTIONS

No transactions were entered into by the Group during the year ended 31 December 2012, which constitute connected transactions under the Listing Rules.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the financial year under review, the Directors were not aware of any business or interest of the Directors or any substantial shareholder (as defined under the Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

SHARE OPTION SCHEME (THE "SCHEME")

The Scheme was approved and adopted pursuant to a written resolution of all the Shareholders of the Company on 15 September 2009 (the "**Adoption Date**").

The purpose of the Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe the Shares as it may determine in accordance with the terms of the Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

The Company shall be entitled to issue options, provided that the total number of the Shares which may be allotted and issued upon exercise of all outstanding options to be granted under the Scheme of the Company shall not exceed 10% of the aggregate Shares in issue at the date when the Shares were first listed on the Stock Exchange, which is 370,000,000 Shares. As of 31 December 2012, 37,000,000 Shares were available for issue under the Scheme, which represented 10% of the issued share capital. The Company may at any time refresh this 10% limit, subject to compliance with the Listing Rules and obtaining the approval of the Shareholders in general meeting, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme does not exceed the 30% of the Shares in issue from time to time.

Unless approved by the Shareholders of the Company, the total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company for the time being.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HKD1.00.

At the time of the grant of the options, the Company will specify the minimum period for which an option must be held before it can be exercised. The Scheme does not any such minimum period. The period within which the option must be exercised will be specified by the Company at the time of grant. Such period must expire no later than 10 years from the relevant date of grant (being the date of which the Board resolves to make an offer of options to the relevant grantee).

The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of an option to a participant, which must be a trading day (i.e. any day on which the Stock Exchange is open for business of dealing in securities); (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of an option to a participant; and (iii) the nominal value of a Share on the date of offer of an option to a participant, provided always that for the purpose of calculating the subscription price, where the Company has been listed on the Main Board for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before Listing.

The Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

As at 31 December 2012, the Group has not granted any share options during the period review.

DIRECTORS' REPORT (continued)

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RETIREMENT BENEFIT SCHEMES

Particulars of the retirement benefit schemes of the Group are set out in note 26 to the consolidated financial statements of this Annual Report.

CORPORATE GOVERNANCE

The Company's principal corporate governance practices are set out in the Corporate Governance Report of this Annual Report.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company will be held on 8 May 2013. Notice of the annual general meeting will be published and despatched to the shareholders of the Company together with this Annual Report.

AUDITORS

SHINEWING (HK) CPA Limited has acted as auditors of the Company for the year ended 31 December 2012.

SHINEWING (HK) CPA Limited shall retire in the forthcoming annual general meeting and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of SHINEWING (HK) CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Cai Shuiyong
Chairman

Jiangxi Province, The PRC, 28 March 2013

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining high standards of corporate governance and practices to protect the interests of the shareholders of the Company. The Board believes that good corporate governance is essential to the success of the Company and the enhancement of shareholders' value. The Company adopts the principles set out in the Corporate Governance Code throughout the organization.

CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has revised the Corporate Governance Practices (the "**New Code Provisions**") with effect from 1 April 2012. Throughout the year ended 31 December 2012, the Company complied with all Code Provisions and, where appropriate, adopted the Recommended Best Practices set out in the Corporate Governance Code (applicable to financial reports covering a period after 1 April 2012) and former Code on Corporate Governance Practices, with the exceptions of Code Provisions A.1.8 and A.2.1 as addressed below:

1. Pursuant to the Code Provision A.1.8, the Company should arrange appropriate insurance cover in respect of any legal action against its Directors and officers. As at the Latest Practicable Date, the Company has yet arranged to purchase any Directors and Officers' Liability Insurance, which covers in respect of legal action against the Directors. While the Company is committed to achieving high standards of corporate governance and to complying with the code provisions, the Company decided to defer the compliance with such code provision as the Board is currently considering quotations from different underwriters and will select the Directors and Officer's Liability insurance with the most cost-efficient; and

2. Pursuant to the Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Cai Shuiyong is appointed as the chairman and chief executive officer of the Company who is responsible for managing the Board and the Group's business. The Board considers that Mr. Cai Shuiyong has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently. Nevertheless, the Board will continue to review the effectiveness of the Group's corporate governance structure to assess whether the separation of the positions of chairman and chief executive officer of the Company is necessary.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the New Code Provisions. The key corporate governance principles and practices of the Company are summarised in this Annual Report.

CORPORATE GOVERNANCE REPORT (continued)

THE BOARD

Roles and Responsibilities

The Board is responsible for overseeing the overall development of the Company's businesses with the objective of enhancing shareholders' value including setting and approving the Company's strategic implementation, considering substantial investments, reviewing the Group's financial performance half-yearly and developing and reviewing the Group's policies and practices on corporate governance while delegating the day-to-day operations of the Company to the executive directors or the management of every business segment. The Board is committed to making decisions in the best interests of both the Company and its shareholders.

Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The non-executive Directors (including the independent non-executive Directors) serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group through their contributions in board meetings.

Board Composition

The Board structure is governed by the Company's articles of association. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

As at 31 December 2012, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors:
Mr. Cai Shuiyong *(Chairman and Chief Executive Officer)*
Mr. Cai Shuiping *(Resigned on 14 February 2013)*
Mr. Lei Zuliang

Non-executive Director:
Professor Liu Zhikun

Independent non-executive Directors:
Ms. Chan Ling
Mr. Liu Jianlin
Mr. Long Weihua

The biographical details of the Directors and the relationship among the members of the Board are set out in the Biographical Information of Directors and Senior Management on pages 15 to 16 of this Annual Report.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Appointment, Re-Election and Removal of Directors

On 1 August 2012, Mr. Lei Zuliang was appointed as an executive Director. On 5 September 2012, Professor Liu Zhikun was appointed as a non-executive Director. Mr. Long Weihua was appointed as an independent non-executive Director, the member of audit committee, remuneration committee and nomination committee with immediate effect after the conclusion of the 2012 Annual General Meeting ("**2012 AGM**") as the replacement of Mr. Shen Guoquan. Mr. Shen Guoquan retired from the Board as independent non-executive Director, as well as the member of audit committee, remuneration committee and nomination committee with effect after the conclusion of the 2012 AGM.

Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, each of Mr. Long Weihua, Ms. Chan Ling and Mr. Liu Jianlin has been appointed for a specific term of two years. Professor Liu will enter into a service agreement with the Company for a term of two years upon re-election.

During the year ended 31 December 2012, the Board complies at all times with the requirement of the Listing Rules relating to the appointment of at least 3 independent non-executive directors and at least one of them has appropriate professional qualifications or accounting or related financial management expertise.

According to the Company's articles of association, one-third of the Directors are required to retire from office at each annual general meeting, provided that every Director shall be subject to retirement by rotation at least once in every three years. The Directors to retire every year shall be those appointed by the Board during the year and those who have been longest in office since their last re-election. Any new Director appointed to fill a causal vacancy and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting of the Company after appointment. There are four Directors subject to re-election at the conclusion of the 2013 Annual General Meeting ("**2013 AGM**"). Pursuant to the Company's articles of association, they are all eligible for re-appointment.

Independence of Non-executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent parties. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence.

Induction and Development

All new Directors participate in a comprehensive induction programme which, taking into account their previous experiences and backgrounds, is designed to further their knowledge and understanding of the Group's culture and operations as well as their associated roles and responsibilities as a director of a Hong Kong listed company. It also contains the introduction of the Company's constitutional documents and the Guides on Directors' Duties issued by the Companies Registry to each newly appointed Director to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other regulatory requirements. Induction programmes were held for Mr. Lei Zuliang, Professor Liu Zhikun and Mr. Long Weihua who joined the Board in August 2012, September 2012 and March 2012, respectively.

CORPORATE GOVERNANCE REPORT (continued)

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills so that they can perform their duties appropriately. The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials, as well as organizes seminars on the professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities.

During the year of 2012, there were two in-house seminars conducted covering the topics of director's duties under Appendix 10 and Appendix 14 of the Listing Rules and new insider information disclosure requirements under the Listing Rules and the Securities and Futures Ordinance. All Directors attended the seminars.

Board Meetings

The Board requires Directors to devote sufficient time and attention to their duties and responsibilities. The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. Notice of at least 14 days is given of a regular Board meeting to give all Directors an opportunity to attend.

The following table is the attendance record of each of the Directors at the meetings held during the year ended 31 December 2012:

Directors	**Attendance/Number of meetings**
Executive Directors	
Mr. Cai Shuiyong *(Chairman and Chief Executive Officer)*	10/10
Mr. Cai Shuiping *(Resigned on 14 February 2013)*	10/10
Mr. Lei Zuliang *(Appointed on 1 August 2012)*	4/4
Non-executive Director	
Professor Liu Zhikun (Appointed on 5 September 2012)	2/2
Independent non-executive Directors	
Ms. Chan Ling	10/10
Mr. Liu Jianlin	10/10
Mr. Long Weihua *(Appointed on 19 March 2012)*	8/8
Mr. Shen Guoquan *(Resigned on 19 March 2012)*	1/1

Board papers are circulated at least 3 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. In addition, the Company has maintained a procedure for the Directors to seek independent professional advice, in appropriate circumstances, at the Company's expenses in discharging their duties to the Company.

All Directors have full and timely access to all relevant information as well as the advice and service of the Company Secretary to ensure Board procedures and all applicable rules and regulations are followed.

CORPORATE GOVERNANCE REPORT (continued)

The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meetings. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable time on reasonable notice by any Director.

DELEGATION BY THE BOARD

Board Committees

The Board has delegated authority to three standing Committees with specific roles and responsibilities. While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association). All Board Committees of the Company are established with defined written terms of reference which are available on both the Company's website and the website of the Stock Exchange.

The Board delegates the responsibility of implementing its strategies and the day-to-day activities to the management of the Company with department heads responsible for different aspects of the business. Management of the Company is required to present an annual budget and any proposal for major investments and changes in business strategies for the Board's approval.

Nomination Committee

The Company established a nomination committee in September 2009 with written terms of reference in compliance with the Code Provisions. The principal duties of the nomination committee are to identify and nominate suitable candidates for the appointment of the Directors and make recommendations to the Board on succession planning for the Directors. As at the date of this Annual Report, the nomination committee comprised one executive Director, namely Mr. Cai Shuiyong and two independent non-executive Directors namely Ms. Chan Ling and Mr. Long Weihua. Pursuant to a resolution of the Board passed on 16 March 2012, Ms. Chan Ling has been appointed as the chairman of the nomination committee. A meeting was held by the nomination committee with all members attended during the year ended 31 December 2012.

Remuneration Committee

The Company established a remuneration committee in September 2009 with written terms of reference in compliance with the Code Provisions. The primary duties of the remuneration committee are, amongst other things, to review and determine the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and to make recommendation to our Board on our Group's policy and structure for all remuneration of our Directors and senior management. The remuneration committee comprises one executive Director, namely, Mr. Cai Shuiyong and two independent non-executive Directors, namely Ms. Chan Ling and Mr. Long Weihua. Ms. Chan Ling has been appointed as the chairman of the remuneration committee. A meeting was held by the remuneration committee with all members attended during the year ended 31 December 2012.

CORPORATE GOVERNANCE REPORT (continued)

Audit Committee

The Company established an audit committee in September 2009 with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules, which were reviewed from time to time by the Board to keep them in line with the most up-to-date requirements. The primary duties of the audit committee are, among other things, to review and supervise the financial reporting process and internal control system of our Group. As at the date of this Annual Report, the audit committee has three members comprising our three independent non-executive Directors, namely Mr. Liu Jianlin, Mr. Long Weihua and Ms. Chan Ling. Mr. Liu Jianlin has been appointed as the chairman of the audit committee.

The audit committee reviews the interim and annual reports before submission to the Board. The audit committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The audit committee met 4 times during the reviewed period, and the attendance records of individual committee members are set out below:

	Attendance/Number of meetings
Mr. Liu Jianlin *(Chairman)*	4/4
Mr. Long Weihua (Appointed on 19 March 2012)	3/3
Ms. Chan Ling	4/4
Mr. Shen Guoquan (Resigned on 19 March 2012)	1/1

COMPANY SECRETARY

All Directors have access to the advice and services of the company secretary, Mr. Kwong Ping Man. The company secretary reports to the Chairman on Board governance matters, and is responsible for ensuring that Board procedures are followed, and for facilitating communications among Directors as well as with Shareholders and management.

The company secretary's biography is set out in the Board of Directors and senior management section of this Annual Report. In compliance with Rule 3.29 of the Listing Rules, Mr. Kwong Ping Man has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2012.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices. Details of the remuneration committee and other relevant information are set out in the section of Remuneration Committee of this Annual Report.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" above.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with all Directors, the Company confirmed that all Directors have complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors for the year ended 31 December 2012.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view of the state of affairs, results, and cash flow of the Group for the year. The consolidated financial statements set out on pages 36 to 98 were prepared on a going concern basis. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. In preparing the financial statements for the year ended 31 December 2012, the Board:

(a) adopted HKFRSs, which conform to the International Financial Reporting Standards in all material respects;

(b) selected suitable accounting policies and applied them consistently;

(c) made prudent and reasonable judgments and estimates; and

(d) ensured that the consolidated financial statements were prepared on a going concern basis.

For the year ended 31 December 2012, the remuneration paid to the auditors, SHINEWING (HK) CPA Limited in respect of audit services amounted to HKD780,000 (2011: HKD600,000) and non-audit service assignment amounted to HKD100,000 (2011: HKD150,000).

The auditor's responsibilities of SHINEWING (HK) CPA Limited are set out in the Independent Auditors' Report on pages 34 and 35.

Internal Controls

The Board recognises the importance of maintaining an adequate and effective internal control system to safeguard the Company's assets against unauthorised use of disposition, and to protect the interests of shareholders of the Company.

Senior management assumes the overall responsibility for reviewing the adequacy and integrity of the Group's internal control system with the guidance of the executive Directors. During the financial year ended 31 December 2012, the Board has discussed and reviewed the internal control system and the relevant proposal made by senior management in order to ensure an adequate and effective system of internal control. Based on the information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

CORPORATE GOVERNANCE REPORT (continued)

SHAREHOLDER RELATIONS

Shareholder Engagement and Communication

The Board gives high priority to balanced, clear, and transparent communications which allow Shareholders and investors to understand the Group's prospects and the market environment in which it operates. The Company engages with Shareholders and investors in a number of different ways to help ensure that their views and concerns are understood and addressed in a constructive way.

(a) Convening an Extraordinary General Meeting on Requisition by Shareholders

Shareholders shall have the right to request the Board to convene an extraordinary general meeting ("**EGM**") of the Company. Two or more Shareholders holding in aggregate of not less than one-tenth (10%) of the paid up capital of the Company which carries the right of voting at the general meeting of the Company may send a written request to the Board of the Company to request for a EGM. The written requisition, duly signed by the shareholders concerned, must state the purposes of the meeting and must be deposited at the registered office of the Company.

(b) Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the principal place of business address of the Company, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

(c) Making Enquiry to the Board

Shareholders may send written enquiries, either by post or by email, together with his/her contact details, such as postal address, email or fax, addressing to the principal place of business address of the Company at the following address or facsimile number or via the website of the Company:

Address: Suites 2001-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong

Website: www.jcholding.com

All enquiries shall be collected by the Company Secretary who shall report to the Executive Directors periodically on the enquiries collected. The Executive Directors shall review the enquiries and assign different kinds of enquiries to appropriate division head/manager for answering. After receiving the answers of all enquiries from the relevant division head/manager, the Company Secretary will collect the answers for the Executive Directors' review and approval. The Company Secretary shall then be authorized by the Executive Directors to reply all enquiries in writing.

CORPORATE GOVERNANCE REPORT (continued)

INVESTOR RELATION

Constitutional Documents

There was no change to the Company's memorandum and articles of association during the financial year 2012. A copy of the memorandum and articles of association is posted on the websites of the Company and the Stock Exchange.

CHANGES AFTER CLOSURE OF THE FINANCIAL YEAR

This Annual Report takes into account the changes that have occurred since the end of the 2012 to the date of approval of this Annual Report.

On behalf of the Board
Cai Shuiyong
Chairman and Chief Executive Officer

Jiangxi Province, The PRC, 28 March 2013

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
43/F., The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF
JIANGCHEN INTERNATIONAL HOLDINGS LIMITED
江晨國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Jiangchen International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 98, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance to our terms of engagement 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT (continued)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Turnover	7	**92,438**	184,804
Cost of sales		**(93,322)**	(171,920)
Gross (loss) profit		**(884)**	12,884
Change in fair value of plantation forest assets	17	**1,799**	–
Bank interest income		**139**	105
Gain on disposal of a subsidiary	29	**850**	–
Change in fair value of derivative financial assets		**(3,128)**	–
Selling and distribution costs		**(777)**	(1,096)
Administrative expenses		**(5,761)**	(9,865)
Impairment loss recognised in respect of trade receivables	19	**(11,122)**	–
Finance costs	9	**(1,153)**	(497)
(Loss) profit before tax		**(20,037)**	1,531
Income tax expense	10	**–**	(1,120)
(Loss) profit for the year	11	**(20,037)**	411
Other comprehensive income for the year:			
Exchange difference arising on translation		**39**	–
Total comprehensive (expenses) income for the year		**(19,998)**	411
(Loss) earnings per share:			
Basic and diluted	13	**RMB(5.42)cents**	RMB0.11cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	15	**4,356**	15,350
Prepaid lease payments	16	**3,148**	7,082
Plantation forest assets	17	**19,195**	–
		26,699	22,432
Current assets			
Inventories	18	**2,961**	8,972
Trade and other receivables	19	**34,989**	32,516
Prepaid lease payments	16	**63**	161
Derivative financial assets	24	**2,184**	–
Tax recoverable		**232**	232
Bank balances and cash	20	**26,198**	32,868
		66,627	74,749
Current liabilities			
Trade and other payables	21	**5,479**	4,608
Amount due to a controlling shareholder	22	**1,385**	589
Tax liabilities		**–**	562
Secured bank borrowing	23	**–**	10,000
		6,864	15,759
Net current assets		**59,763**	58,990
Total assets less current liabilities		**86,462**	81,422
Non-current liabilities			
Convertible bonds	24	**12,594**	–
Net assets		**73,868**	81,422
Capital and reserves			
Share capital	25	**3,256**	3,256
Reserves		**70,612**	78,166
Total equity attributable to owners of the Company		**73,868**	81,422

The consolidated financial statements on pages 36 to 98 were approved and authorised for issue by the board of directors on 28 March 2013 and are signed on its behalf by:

Cai Shuiyong **Lei Zuliang**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000 (Note a)	Convertible bonds equity reserves RMB'000	Translation reserve RMB'000	Other reserves RMB'000 (Note b)	Retained earnings RMB'000	Total RMB'000
At 1 January 2011	3,256	10,642	10	5,256	–	–	18,038	43,809	81,011
Profit and total comprehensive income for the year	–	–	–	–	–	–	–	411	411
Appropriation to reserves	–	–	–	687	–	–	–	(687)	–
At 31 December 2011 and At 1 January 2012	3,256	10,642	10	5,943	–	–	18,038	43,533	81,422
(Loss) for the year	–	–	–	–	–	–	–	(20,037)	(20,037)
Other comprehensive income for the year									
Exchange difference arising on translation	–	–	–	–	–	39	–	–	39
Total comprehensive income (expense) for the year	–	–	–	–	–	39	–	(20,037)	(19,998)
Recognition of equity component of convertible bonds	–	–	–	–	12,444	–	–	–	12,444
At 31 December 2012	3,256	10,642	10	5,943	12,444	39	18,038	23,496	73,868

Notes:

a. Statutory reserves

Statutory reserves were established in accordance with the relevant People's Republic of China (the "PRC") rules and regulations for the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective directors.

b. Other reserves

Other reserves comprise the following:

– Merger reserve arising from common control combination for entity acquired in December 2010;

– Surplus from the share capital of the subsidiaries, acquired pursuant to the group reorganisation over acquisition consideration; and

– Difference between the nominal value of the shares of a subsidiary, acquired pursuant to the group reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES			
(Loss) profit before tax		(20,037)	1,531
Adjustments for:			
Amortisation of prepaid lease payments		161	161
Changes in fair value of derivative financial assets		3,128	–
Changes in fair value of plantation forest assets		(1,799)	–
Depreciation of property, plant and equipment		1,301	1,300
Finance costs		1,153	497
Bank interest income		(139)	(105)
Loss on disposal of property, plant and equipment		127	42
Gain on disposal of a subsidiary		(850)	–
Impairment loss recognised in respect of trade receivables		11,122	–
Operating cash flows before movements in working capital		(5,833)	3,426
Decrease in inventories		6,011	4,822
(Increase) decrease in trade and other receivables		(1,790)	1,130
Increase (decrease) in trade and other payables		4,331	(8,474)
Increase in amount due to a controlling shareholder		796	589
Cash generated from operations		3,515	1,493
People's Republic of China Enterprise Income Tax paid		–	(2,091)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		3,515	(598)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(173)	(242)
Net cash outflow from disposal of a subsidiary	29	(15)	–
Proceeds on disposal of property, plant and equipment		25	56
Interests received		139	105
Net cash inflow on acquisition of subsidiaries	30	111	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES		87	(81)
FINANCING ACTIVITIES			
Interest paid		(318)	(497)
Repayments of bank borrowing		(10,000)	(2,000)
New bank borrowing raised		–	10,000
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(10,318)	7,503
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(6,716)	6,824
CASH AND CASH EQUIVALENTS AT 1 JANUARY		32,868	26,044
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		46	–
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		26,198	32,868

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

Jiangchen International Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands. On 8 October 2009, its shares were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were withdrawn from the GEM on 13 May 2011. On 16 May 2011, the Company's shares were listed on the Main Board of the Stock Exchange.

The address of the registered office and principal place of business are disclosed in the section of "Corporate Information" in the annual report. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and wholesaling of apparels and investment holding.

As part of its plan to diversify into the forest harvesting and timber processing business, on 11 July 2012, the Group had completed the acquisition to acquire 100% equity interests of Rongxuan Forestry Investment Holdings Limited ("Rongxuan") and its subsidiaries (collectively referred to as the "Rongxuan Group") which holds plantation forest assets in Dali, Yunnan Province in the People's Republic of China (the "PRC"). As at 31 December 2012, the Group's forest harvesting and timber processing business is still at a preliminary stage and have yet to commence actual operation.

The directors of the Company consider that Well Bright Group Limited ("Well Bright"), a company incorporated in the British Virgin Islands ("BVI") with limited liability, is the parent company and Mr. Cai Shuiyong ("Mr. Cai SY") and Mr. Cai Shuiping ("Mr. Cai SP") are the ultimate controlling shareholders.

The Company's functional currency is Hong Kong dollars ("HKD") while that for the major subsidiaries in the PRC is Renminbi ("RMB"). As the operation of the Group is mainly held in the PRC, the directors of the Company consider that it is appropriate to present the consolidated financial statements in RMB.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Application of amendments to HKFRSs

In the current year, the Group has applied a number of new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to Hong Kong Accounting Standards ("HKAS") 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets; and
Amendments to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The directors of the Company anticipate that the application of the amendments to HKFRSs in current year had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009-2011 Cycle[2]
Amendments to HKFRS 1	Government loans[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosurests[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[3]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangement[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associate and Joint Ventures[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2014.
4 Effective for annual periods beginning on or after 1 January 2015.

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include the amendments to HKAS 16 Property, Plant and Equipment and the amendments to HKAS 32 Financial Instruments: Presentation.

The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issue but not yet effective (Continued)

Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012 (Continued)

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors of the Company do not anticipate that the application of the amendments will have a material effect on the Group's consolidated financial statements.

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 Income Taxes. The directors of the Company anticipate that the amendments to HKAS 32 will have no effect on the Group's consolidated financial statements.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liability requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors of the Company anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issue but not yet effective (Continued)

HKFRS 9 Financial Instruments (Continued)

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designed as at fair value through profit or loss, HKFRS 9 requires that amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impacts on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issue but not yet effective (Continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures (Continued)

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK (SIC)-Int 12 Consolidation – Special Purpose Entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement. The application of HKFRS 10 is not expected to change any of the control conclusions reached by the Group in respect of its investment with other entities as at 1 January 2013.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 Jointly Control Entities – Non-monetary Contributions by Venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these five standards are applied at the same time.

The directors of the Company anticipate that the application of these five standards will have no material impact on the amounts reported in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issue but not yet effective (Continued)

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

– obtain funds from one or more investors for the purpose of providing them with professional investment management services;

– commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

– measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors of the Company anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors of the Company anticipate that the application of the new standard may affect the certain amounts (derivative financial assets) reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issue but not yet effective (Continued)

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in the exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

– the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

– the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

– the amount of revenue can be measured reliably;

– it is probable that the economic benefits associated with the transaction will flow to the Group; and

– the cost incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Plantation forest assets

Plantation forest assets predominately consist of standing trees in a forest on which the Group undertakes agricultural activities to transform the standing trees into agricultural produce for sale. The forest establishment and maintenance expenses are charged to profit or loss in the period in which they are incurred.

Plantation forest assets are stated at fair value less costs to sell at the end of each reporting period and the gain or loss arising from the changes in the fair value less costs to sell of the plantation forest assets is recognised in profit or loss in the period in which it arises.

If an active market exists for standing trees with reference to the distribution of the forest area by age-class, land tenure, forest health, expected growth and yield of the tree crops are adopted for determining the fair value of these assets. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values or as determined by independent professional valuers.

At the time the tree is harvested, the agricultural produce is measured at its fair value less costs to sell at the point of harvest. It is taken out of the plantation forest assets (non-current assets) and accounted for under inventories (current assets). Depletion of plantation forest assets is calculated based on the rate corresponding to the volume of standing trees actually harvested and the total estimated standing trees volume of the plantation forest assets.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes are carried at cost less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Prepaid lease payments

Prepaid lease payments are up-front payments to acquire leasehold land interests that are accounted for as an operating lease. The prepaid lease payments are stated at cost less accumulated amortisation and accumulated impairment losses, amortisation is charged to the profit or loss over the period of the land use right using the straight-line method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant leases.

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes for the PRC companies in the Group are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash as defined above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into one of the two categories including loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

– it has been acquired principally for the purpose of selling in the near term; or

– it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

– it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets at FVTPL (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

– such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

– the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

– it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the change in fair value of derivative financial assets line item in the consolidated statement of comprehensive income. Fair value is determined in the manner described in respective note.

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 90 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a controlling shareholder, convertible bonds and secured bank borrowing are subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

Convertible bonds issued by the Group that contain both the liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability, an equity instrument and a derivative financial asset. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, both the liability and early redemption option components are measured at fair value. The difference between the fair value of the assets acquired by the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible bonds equity reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Convertible bonds (Continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The early redemption option components are measured at fair value with changes in fair values recognised in profits or loss. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised (in which case the balance stated in convertible bonds equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Upon redemption of the convertible bonds, the redemption consideration will be allocated to the liability component and equity component using the same allocation basis as when the convertible bonds were originally issued.

Differences between the redemption consideration and the carrying amount of the liability component will be recognised in the consolidated statement of comprehensive income. The difference between the redemption consideration and the fair value of the equity component will be included in equity (convertible bond equity reserve) and released to retained earnings.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and equity and derivative financial assets in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method. Transaction costs relating to the early redemption option are charged to profit or loss immediately.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition (Continued)

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Share-based payment transactions

Share-based payment transactions in which the terms of the arrangement provide the counterparty with a choice of settlement

If the Company has granted the counterparty the right to choose whether a share-based payment transaction is settled in cash or by issuing equity instruments, the entity has granted a compound financial instrument, which includes a debt component (the counterparty's right to demand payment in cash) and an equity component (the counterparty's right to demand settlement in equity instruments rather than in cash).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

Share-based payment transactions in which the terms of the arrangement provide the counterparty with a choice of settlement (Continued)

The Company separately accounted for the goods or services received or acquired in respect of each component of the compound financial instrument. For the debt component, the Group recognise the goods or services acquired, and a liability to pay for those goods or services, as the counterparty supplies goods or renders service, in accordance with the requirements applying to cash-settled share-based payment transactions. For the equity component, the Group recognise the goods or services received, and an increase in equity, as the counterparty supplies goods or renders service, in accordance with the requirements applying to equity-settled share-based payment transactions. The Group measures the equity component of the compound financial instrument as the difference between the fair value of the goods or service rendered and the fair value of the debt component at the date when the goods or services are received.

On derecognition of the compound financial instrument, the Company remeasures the liability to its fair value. If the Company issues equity instruments on settlement rather than paying cash, the liability shall be transferred direct to equity, as the consideration for the equity instruments issued.

If the Company pays in cash on settlement rather than issuing equity instruments, that payment shall be applied to settle the liability in full. Any equity component previously recognised shall remain within equity.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(a) Approval of logging permits for the plantation forest assets

The PRC government strictly implements a quota system for the quantities of forest wood to be logged annually and accordingly, such limited quota is competed vigorously among the numerous forestry operators. Without the approved logging permits, the Group will not be able to start operations for revenue generation in the forestry segment.

At 31 December 2012, the Group was pending approval of the logging permits for its plantation forest assets. In the opinion of the directors of the Company, the absence of logging permit does not impair their value to the Group as the Group has legally obtained ownership title to the forestry assets, is qualified to make the relevant application and have already filed its application properly according to the relevant legal procedures. According to the PRC legal opinion dated 19 March 2013, the directors of the Company considered there is no legal restriction on the application of the logging permits and expected the logging permits will be granted in April 2013.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account their estimated residual values. The determination of the useful lives involves management's estimation. The Group assesses annually the useful lives of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key Sources Of Estimation Uncertainty (Continued)

(b) Fair value of plantation forest assets and forestry land use rights

The Group's plantation forest assets and forestry land use rights are stated at fair value less costs to sell and at initial fair value on recognition and subsequently stated at cost less accumulated amortisation respectively. In determining the fair value of the plantation forest assets, the professional valuer has applied the net present value approach which requires a number of key assumptions and estimates to be made such as the successful application of logging permits, discount rate, log price, harvest profile, plantation costs, growth, harvesting and establishment, whereas, with respect to the intital fair value of the forestry land use rights, the professional valuer has applied market value approach which is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently, and without compulsion. Any change in the estimates may affect the fair value of the plantation forest assets and forestry land use rights significantly. The management reviews the assumptions and estimates periodically to identify any significant change in the fair value of the plantation forest assets. The carrying amounts of the Group's plantation forest assets as at 11 July 2012 and 31 December 2012 were approximately RMB17,396,000 and RMB19,195,000 respectively (2011: Nil) and the carrying amount of the Group's forestry land use rights as at 11 July 2012 and 31 December 2012 were approximately RMB1,310,000 and RMB1,310,000 respectively (2011: Nil).

(c) Estimated impairment of inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 December 2012, the carrying amount of inventories is approximately RMB2,961,000 (2011: RMB8,972,000). No impairment loss was recognised for both years.

(d) Estimated impairment of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. As at 31 December 2012, the carrying amount of trade receivable is approximately RMB14,248,000 (net of allowance for doubtful debts of approximately RMB11,222,000) (2011: carrying amount of approximately RMB26,971,000, net of allowance for doubtful debts of approximately RMB100,000). Impairment loss of approximately RMB11,122,000 was recognised during the year ended 31 December 2012 (2011: nil).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key Sources Of Estimation Uncertainty (Continued)

(e) Estimated impairment of property, plant and equipment and prepaid lease payments

The management of the Group determines whether the property, plant and equipment and prepaid lease payments are impaired, at least on an annual basis. The impairment loss for property, plant and equipment and prepaid lease payments are recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment and prepaid lease payments have been determined based on market approach which is based on the assumption of making reference to prices of similar transactions. As at 31 December 2012, the carrying amounts of property, plant and equipment and prepaid lease payments are approximately RMB4,356,000 (2011: RMB15,350,000) and RMB3,211,000 (2011: RMB7,243,000) respectively. No impairment loss was recognised for both years.

(f) Fair value of embedded early redemption option of the convertible bonds

The directors of the Company use their judgements in selecting an appropriate valuation technique to determine fair value of embedded early redemption option of the convertible bonds which are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The fair values of these derivative financial assets are determined at the date of issuance and the end of each reporting period with movement in fair value recognised in profit or loss. In estimating the fair value of the derivative financial assets, the Group uses valuation performed by independent valuers which is based on various inputs and estimates with reference to quoted market rates and adjusted for specific features of the instrument. If the inputs and estimates applied in the model are different, the carrying amount of these derivative financial liabilities may change. The carrying amount of embedded early redemption option of the convertible bonds amounted to approximately RMB5,312,000 and RMB2,184,000 as at 11 July 2012 and 31 December 2012 respectively (2011: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes secured bank borrowing and convertible bonds disclosed in Note 23 and Note 24 respectively and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the raising of new debts or the repayment of existing debts.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2012 **RMB'000**	2011 RMB'000
Financial assets		
Loan and receivables (including bank balances and cash)	**58,963**	60,062
Derivative financial assets	**2,184**	–
Financial liabilities		
Financial liabilities at amortised cost	**19,035**	14,587

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amount due to a controlling shareholder, secured bank borrowing and convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Currency risk

One of the subsidiaries of the Company has foreign currency sales, which exposes the Group to foreign currency risk. Approximately 12% (2011: 2%) of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst all costs are denominated in the group entity's functional currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Currency risk (Continued)

Certain bank balances of the Group are denominated in currencies other than RMB.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2012 '000	2011 '000
Monetary assets:		
HKD	–	151

The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

In 2011 the Group is mainly exposed to the currency of HKD.

If RMB increase and decrease by a 5% against HKD and all other variables were held constant, the Group's post tax profit for 2011 would decrease and increase by approximately RMB6,000. A 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. This is mainly attributable to the exposure to HKD bank balances.

This is mainly attributable to the exposure to HKD bank balances for 2011 not subject to cash flow hedges at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(ii) Interest rate risk

As at 31 December 2011, the Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowing (see Note 23 for details of this borrowing). To mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate. The Group is not exposed to cash flow interest rate risk as at 31 December 2012.

As at 31 December 2011 and 2012, the Group is also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for secured bank borrowing as at the end of reporting period in 2011. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates have been 50 basis points higher/lower in 2011 and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2011 would decrease/increase by approximately RMB38,000. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing.

(iii) Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable and other receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group has concentration of credit risk as 41% (2011: 37%) and 87% (2011: 81%) of the total trade receivables was due from the Group's largest customer and the five largest customers, within the manufacturing and wholesaling of original equipment manufacturing ("OEM") products segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

The Group's concentration of credit risk by geographical location is mainly in the PRC which accounted for 100% (2011: 100%) of the total trade receivables as at the end of reporting period.

The Group has no other significant concentration of credit risk, with exposure spreading over a number of counterparties.

(iv) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and other source of funding and considers the risk is minimal.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period. The amounts included below for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Liquidity tables

As at 31 December 2012

	On demand or within one year RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount as at 31 December 2012 RMB'000
Trade and other payables	5,056	–	5,056	5,056
Amount due to a controlling shareholder	1,385	–	1,385	1,385
Convertible bonds	–	17,877	17,877	12,594
	6,441	17,877	24,318	19,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iv) Liquidity risk (Continued)

Liquidity tables (Continued)

As at 31 December 2011

	On demand or within one year and total undiscounted cash flows RMB'000	Carrying amount as at 31 December 2011 RMB'000
Trade and other payables	3,998	3,998
Amount due to a controlling shareholder	589	589
Secured bank borrowing	10,097	10,000
	14,684	14,587

(v) Fair value

The fair value of financial assets (excluding derivative financial assets) and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instrument.

The fair value of derivative assets is calculated using quoted prices. When such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

The Group's financial instruments carried at fair value represent the Company's early redemption options (Note 24). The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(v) Fair value (Continued)

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2012

	Level 3 RMB'000
Financial asset through profit and loss	
Derivative financial assets	2,184

Reconciliation of Level 3 fair value measurements of financial assets

	Derivative financial assets RMB'000
At 1 January 2012	–
Issue of convertible bonds	5,312
Total loss in profit or loss	(3,128)
At 31 December 2012	2,184

All of the total loss in profit or loss included in profit or loss relates to derivative financial assets held at the end of the reporting period. Fair value gains or losses on derivative financial assets are included in change in fair value of derivative financial assets.

7. TURNOVER

Turnover represents the net amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

8. SEGMENT INFORMATION

Information reported to the chief executive officer, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

During the year ended 31 December 2012, the Group acquired 100% equity interest of Rongxuan Group which holds plantation forest assets and the Group started the preliminary stage of forestry management business. The management concluded it should be separately reported as this segment was monitored by the chief executive officer separately.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(i) Manufacturing and wholesaling of OEM products – manufacturing and sale of apparel products made according to design and specifications specified by customers.

(ii) Manufacturing and sales of branded products ("Brand Business") – the sale of apparel designed in-house and sold under the Group's own brand name.

(iii) Forestry business – plantation, logging and the sale of timber related products.

Information regarding the above segments for the years ended 31 December 2012 and 2011 is presented below.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment for the years ended 31 December 2012 and 2011:

For the year ended 31 December 2012

	Manufacturing and wholesaling of OEM products RMB'000	Brand Business RMB'000	Forestry business RMB'000	Total RMB'000
Turnover	73,954	18,484	–	92,438
Segment (loss)/profit	(12,315)	(3,016)	1,483	(13,848)
Bank interest income				139
Gain on disposal of a subsidiary				850
Change in fair value of derivative financial assets				(3,128)
Central administrative costs				(2,897)
Finance costs				(1,153)
Loss before tax				(20,037)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2011

	Manufacturing and wholesaling of OEM products RMB'000	Brand Business RMB'000	Forestry business RMB'000	Total RMB'000
Turnover	148,612	36,192	–	184,804
Segment profit	2,962	2,496	–	5,458
Bank interest income				105
Central administrative costs				(3,535)
Finance costs				(497)
Profit before tax				1,531

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment loss/profit represent the loss from/profit earned by each segment without allocation of central administrative costs including directors' salaries and other corporate administrative costs, change in fair value of derivative financial assets, gain on disposal of a subsidiary, bank interest income and finance costs. This is the measure reported to the chief executive officer for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment as at 31 December 2012 and 2011:

As at 31 December 2012

	Manufacturing and wholesaling of OEM products RMB'000	Brand Business RMB'000	Forestry business RMB'000	Total segment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	37,723	5,606	20,679	64,008	29,318	93,326
Segment liabilities	5,090	141	35	5,266	14,192	19,458

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

As at 31 December 2011

	Manufacturing and wholesaling of OEM products RMB'000	Brand Business RMB'000	Forestry business RMB'000	Total segment RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	54,236	9,448	–	63,684	33,497	97,181
Segment liabilities	3,474	664	–	4,138	11,621	15,759

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

– all assets are allocated to operating segments other than derivative financial assets, income tax recoverable, bank balances and cash and other assets for corporate use which including property, plant and equipment and other receivables.

– all liabilities are allocated to operating segments other than secured bank borrowing, convertible bonds, tax liabilities, amount due to a controlling shareholder and certain other payables.

Other segment information

For the year ended 31 December 2012

	Manufacturing and wholesaling of OEM products RMB'000	Brand Business RMB'000	Forestry business RMB'000	Total segment RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment loss/profit or segment assets						
Additions to non-current assets	–	–	18,885	18,885	23	18,908
Depreciation of property, plant and equipment	1,055	228	15	1,298	3	1,301
Amortisation of prepaid lease payments	151	10	–	161	–	161
Loss on disposal of property, plant and equipment	50	77	–	127	–	127
Changes in fair value of plantation forest assets	–	–	(1,799)	(1,799)	–	(1,799)
Impairment loss recognised in respect of trade receivables	11,122	-	-	11,122	-	11,122
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment loss/profit						
Bank interest income	–	–	–	–	(139)	(139)
Interest expense	–	–	–	–	1,153	1,153
Gain on disposal of a subsidiary	(850)	–	–	(850)	–	(850)
Change in fair value of derivative financial assets	–	–	–	–	3,128	3,128

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2011

	Manufacturing and wholesaling of OEM products RMB'000	Brand Business RMB'000	Forestry business RMB'000	Total segment RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or segment assets						
Addition to non-current assets	242	–	–	242	–	242
Depreciation of property, plant and equipment	1,072	228	–	1,300	–	1,300
Amortisation of prepaid lease payments	151	10	–	161	–	161
Loss on disposal of property, plant and equipment	42	–	–	42	–	42
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit						
Bank interest income	–	–	–	–	(105)	(105)
Interest expense	–	–	–	–	497	497
Income tax expense	840	280	–	1,120	–	1,120

Geographical information

Information about the Group's revenue from external customers is presented based on the location of customers are detailed below:

	2012 RMB'000	2011 RMB'000
PRC (excluding Hong Kong)	**92,438**	180,567
Others	**–**	4,237
	92,438	184,804

An analysis of segment assets and capital expenditure by geographical area in which the assets are located has not been presented as the Group's assets are substantially located in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

8. SEGMENT INFORMATION (Continued)

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2012 RMB'000	2011 RMB'000
Customer A[2]	29,753	44,871
Customer B[2]	20,382	33,280
Customer C[2]	12,696	32,744
Customer D[2]	11,122	N/A[1]
	73,953	110,895

1 The corresponding revenue did not contribute over 10% of the total sales of the Group.

2 Revenue from manufacturing and wholesaling of OEM products.

9. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on secured bank borrowing wholly repayable within one year	318	497
Effective interest expense on convertible bonds (Note 24)	835	–
	1,153	497

10. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current PRC Enterprise Income Tax	–	1,120

Hong Kong Profits Tax has not been provided for in the consolidated financial statements as there were no assessable profits derived from Hong Kong for both years.

Pursuant to the laws and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

10. INCOME TAX EXPENSE (Continued)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years (the "Tax Exemption"). The PRC subsidiaries which are currently entitled to the Tax Exemptions from 1 January 2008 would continue to enjoy such treatments until the Tax Exemptions period expires, but not beyond 2012.

The income tax expense for the year can be reconciled to the (loss) profit per the consolidated statement of comprehensive income as follows:

	2012 **RMB'000**	2011 RMB'000
(Loss) profit before tax	**(20,037)**	1,531
Tax expense at the domestic income tax rate	**(3,353)**	1,276
Tax effect of expenses not deductible for tax purpose	**2,783**	3
Tax effect of income not taxable for tax purpose	**(594)**	–
Tax effect of tax losses not recognised	**1,164**	978
Tax effect of tax exemption granted to PRC subsidiaries	**–**	(1,137)
Income tax expense for the year	**–**	1,120

As at 31 December 2012, the Group had unrecognised tax losses of approximately RMB4,157,000 (2011: RMB3,912,000), which can be carried forward to offset future taxable profit and will expire after five years. No deferred tax asset had been recognised in respect of the unrecognised tax loss of RMB4,157,000 (2011:RMB3,912,000) due to the unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB58,887,000 (2011: approximately RMB62,824,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

11. (LOSS) PROFIT FOR THE YEAR

	2012 RMB'000	2011 RMB'000
(Loss) profit for the year has been arrived at after charging:		
Directors' emoluments (Note 12)	228	203
Other staff costs	14,411	26,481
Termination benefits	783	2,907
Retirement benefits scheme contributions, excluding directors	8,389	11,138
Total staff costs	23,811	40,729
Amortisation of prepaid lease payments	161	161
Auditors' remuneration	717	497
Cost of inventories recognised	93,211	171,878
Depreciation of property, plant and equipment	1,301	1,300
Exchange loss	97	119
Loss on disposal of property, plant and equipment	127	42
Operating lease rental paid in respect of rented premises	79	488
Research and development costs recognised as an expense (included in the administrative expenses) (Note)	283	289

Note: During the year ended 31 December 2012, research and development costs included staff costs of approximately RMB182,000 (2011: RMB178,000) for the Group's employees engaged in research and development activities, which are also included in staff costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the eight (2011: Seven) directors were as follows:

For the year ended 31 December 2012

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Cai SY	–	60	7	67
Mr. Cai SP[1]	–	60	–	60
Mr. Lei Zuliang[2]	15	–	–	15
Non-executive director:				
Professor Liu Zhikun[3]	12	–	–	12
Independent non-executive directors:				
Mr. Liu Jianlin	26	–	–	26
Mr. Shen Guoquan[4]	6	–	–	6
Ms. Chan Ling	24	–	–	24
Mr. Long Weihua[5]	18	–	–	18
Total	101	120	7	228

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

12. DIRECTORS', CHIEF EXECUTIVE'S, AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors (Continued)

For the year ended 31 December 2011

	Fees RMB'000	Salaries and other allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors:				
Mr. Cai SY	–	60	7	67
Mr. Cai SP	–	60	–	60
Independent non-executive directors:				
Mr. Lin Anqing[6]	7	–	–	7
Ms. Lin Peifen[6]	7	–	–	7
Mr. Liu Jianlin	26	–	–	26
Mr. Shen Guoquan[7]	18	–	–	18
Ms. Chan Ling[7]	18	–	–	18
Total	76	120	7	203

1 Resigned on 14 February 2013

2 Appointed on 1 August 2012.

3 Appointed on 5 September 2012.

4 Resigned on 19 March 2012.

5 Appointed on 19 March 2012.

6 Resigned on 30 March 2011.

7 Appointed on 30 March 2011.

Mr. Cai SY is also the chief executive officer of the Company and his emoluments disclosed above for the years ended 31 December 2012 and 2011 include those for services rendered by him as the chief executive.

12. DIRECTORS', CHIEF EXECUTIVE'S, AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees

Of the five individuals with the highest emoluments in the Group, two (2011: two) were directors of the Company whose emoluments are included in the disclosures in Note 12(a) above. The emoluments of the remaining three (2011: three) individuals were as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other allowances	**150**	152
Retirement benefits scheme contributions	**4**	20
	154	172

Note: The emolument of each of the above employees is below RMB815,000 (approximately HKD1,000,000) for both years.

During the years ended 31 December 2012 and 2011, no emoluments were paid by the Group to any directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company waived any emolument during the years ended 31 December 2012 and 2011.

13. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss for the year attributable to owners of the Company of approximately RMB20,037,000 (2011: profit of RMB411,000) and the weighted average number of ordinary shares in issue during the year of 370,000,000 (2011: 370,000,000).

The diluted loss per share for the year ended 31 December 2012 is the same as the basic loss per share as the outstanding dilutive potential ordinary share is anti-dilutive. The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds as their exercise would result in a decrease in loss per share.

The diluted earnings per share for the year ended 31 December 2011 is the same as the basic earnings per share as there was no dilutive potential ordinary shares outstanding during year.

14. DIVIDEND

No dividend was paid, declared or proposed during the years ended 31 December 2012 and 2011 nor had any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery RMB'000	Office equipment, furniture and fixtures RMB'000	Leasehold improvement RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2011	14,480	3,499	208	717	–	650	19,554
Additions	–	–	–	–	–	242	242
Transfer	–	–	–	892	–	(892)	–
Disposals	–	(209)	–	–	–	–	(209)
At 31 December 2011 and 1 January 2012	14,480	3,290	208	1,609	–	–	19,587
Acquisition of subsidiaries	–	–	29	–	–	–	29
Additions	–	–	23	–	150	–	173
Disposals	–	(220)	–	(132)	–	–	(352)
Derecognised on disposal of a subsidiary	(9,563)	(1,108)	(28)	(892)	–	–	(11,591)
At 31 December 2012	4,917	1,962	232	585	150	–	7,846
ACCUMULATED DEPRECIATION							
At 1 January 2011	1,512	1,225	94	217	–	–	3,048
Provided for the year	666	314	33	287	–	–	1,300
Eliminated on disposals	–	(111)	–	–	–	–	(111)
At 31 December 2011 and 1 January 2012	2,178	1,428	127	504	–	–	4,237
Provided for the year	665	296	35	293	12	–	1,301
Eliminated on disposals	–	(140)	–	(60)	–	–	(200)
Eliminated on disposal of a subsidiary	(1,275)	(244)	(13)	(316)	–	–	(1,848)
At 31 December 2012	1,568	1,340	149	421	12	–	3,490
CARRYING VALUES							
At 31 December 2012	3,349	622	83	164	138	–	4,356
At 31 December 2011	12,302	1,862	81	1,105	–	–	15,350

All the buildings of the Group are situated on land with medium-term land use rights in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives and after taking into account their estimated residual value. The estimated useful lives of the property, plant and equipment are as follows:

Buildings	20 years or over the lease term of the relevant land, whichever is shorter
Machinery	10 years
Office equipment, furniture and fixtures	5 years
Leasehold improvement	5 years or over the relevant lease, whichever is shorter
Motor vehicles	4 years

As at 31 December 2012, the Group pledged its buildings with carrying values of approximately RMB1,403,000 (2011: RMB10,228,000) to secure general banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

	Note	2012 RMB'000	2011 RMB'000
Analysed for reporting purposes as:			
Current asset		**63**	161
Non-current asset		**3,148**	7,082
		3,211	7,243
The Group's prepaid lease payments comprise:			
Leasehold lands in the PRC under medium-term lease		**1,901**	7,243
Leasehold lands in the PRC under long-term lease		**1,310**	–
		3,211	7,243
Location:			
Yunnan, the PRC	(i)	**1,310**	–
Jiangxi, the PRC		**1,901**	7,243
		3,211	7,243

(i) Prepaid lease payments located in Yunnan represent 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 PRC forest law issued by the State Council of the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

16. PREPAID LEASE PAYMENTS (Continued)

The prepaid lease payments are amortised over the lease term ranging from 50 to 65 years.

As at 31 December 2012, the Group pledged its leasehold lands with carrying values of approximately RMB1,081,000 (2011: RMB6,405,000) to secure general banking facilities granted to the Group.

17. PLANTATION FOREST ASSETS

	2012 RMB'000	2011 RMB'000
At beginning of year	–	–
Acquisition of subsidiaries	17,396	–
Changes in fair value less costs to sell	1,799	–
At the end of year	19,195	–

During the current year, the Group acquired Rongxuan Group which principally holds plantation forest assets in Dali, Yunnan Province in the PRC which had a total leasehold land base of approximately 3,530 Chinese Mu (equivalent to approximately of 235 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities including working on a program for assessing the species mix and forest volume of the forests with Ascent Partners Valuation Service Limited ("Ascent Partners"), an independent qualified professional valuer, in Dali. As at 31 December 2012, the plantation forest assets in Dali represent standing timber acquired, planted and managed by the Group and comprise approximately 142 hectares of pine trees and 93 hectares of oak trees. There are approximately 118 hectares of tree plantations with age 40 years or older. The details of the key assumptions used in the valuation are set out below.

The Group's plantation forest assets are regarded as biological assets which are measured at fair value less costs to sell at the date of acquisition and the end of each reporting period in accordance with HKAS 41 "Agriculture". These assets were independently valued by Ascent Partners as at 11 July 2012 (the date of acquisition) and 31 December 2012. Ascents Partners has applied the net present value approach whereby projected future net cash flows, based on their assessments of current timber log prices, were discounted at the pre-tax discount rate of 16.18% for the plantation forest assets, to arrive at the fair value of the plantation forest assets. The change in fair value less cost to sell was due to the changes in price of the forest assets. No material physical changes were noted during the year on the forest assets.

The PRC government strictly implements a quota system for the quantities of forest wood to be logged annually and accordingly, such limited quota is competed vigorously among the numerous forestry operators. Without the approved logging permits, the Group will not be able to start operations for revenue generation in the forestry segment.

17. PLANTATION FOREST ASSETS (Continued)

At 31 December 2012, the Group was pending approval of the logging permits for its plantation forest assets. In the opinion of the directors of the Company, the absence of logging permit does not impair their value to the Group as the Group has legally obtained ownership title to the forestry assets, is qualified to make the relevant application and have already filed its application properly according to the relevant legal procedures. According to the PRC legal opinion dated 19 March 2013, the directors of the Company considered there is no legal restriction on the application of the logging permits and expected the logging permits will be granted in 2013. During the year ended 31 December 2012, the Group did not harvest any timber log.

The discount rate used in the valuation of the plantation forest assets in the PRC as at 11 July 2012 and 31 December 2012 was determined by reference to discount rates published by public entities and government agencies in the PRC, weighted average cost of capital analysis, internal rate of return analysis, surveyed opinion of forest valuers practice and the implied discount rate of forest sales transactions mainly in the PRC over a period of time, with more weight given to the implied discount rate.

– The principal valuation methodology and assumptions adopted are as follows:

– The logging permit will be granted by the relevant government authorities.

– The forest are managed on a sustainable basis and sufficient logging quota will be continuously granted by the relevant government authorities.

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

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

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

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

– Costs have been derived from external sources and discussion with the staff of the Group. The costs are current average costs. No allowance has been made for cost improvements in future operations.

– Prices have been derived from independent market information and not prices actually received by the Group.

– Cash flow project is determined for a period of 5 years up to 2017 with the first year of logging activities taken to be from April 2013. The management have assumed that the logging volume during the forest period is 3,000 cubic meters in the first year, 5,000 cubic meters in the second year, 8,000 cubic meters in the third year, 10,000 cubic meters in the fourth year and 7,424 cubic meters in the last year based on the current best estimated harvesting plan. As at the date of this report, the Group has not obtained the logging permits yet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

17. PLANTATION FOREST ASSETS (Continued)

- The directors of the Company have assumed that the average increment in log sales prices is 7.29% per annum, which is in line with the long-term producer price index of forestry product. The increment in logging, transportation and maintenance and other costs relating to the logging activities and forestry management is 3.07% per annum for the forest period.

- The inflation rate on other operating cost is 3.07% per annum.

- The biological growth rates of pine and oak are 5.00% and 3.50% respectively.

The Group is exposed to a number of risks related to its plantation forest assets:

Regulatory and environmental risks

The Group is subject to laws and regulations in Yunnan in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Climate and other risks

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by 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. The Group's standing timbers is exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of timber. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

18. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	**780**	2,162
Work-in-progress	**66**	471
Finished goods	**2,115**	6,339
	2,961	8,972

19. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**25,470**	27,071
Less: allowance for doubtful debts	**(11,222)**	(100)
	14,248	26,971
Prepayment	**2,224**	5,322
Other receivables	**18,517**	223
	34,989	32,516

The Group generally allows an average credit period of 90 to 180 days to its trade customers, where payment in advance is normally required. The Group does not hold any collateral over these balances. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period which approximated the respective revenue recognition dates are as follows:

	2012 RMB'000	2011 RMB'000
0 – 90 days	**10,180**	25,521
91 – 180 days	**4,068**	1,450
Total	**14,248**	26,971

No impairment loss is provided for the trade receivables that are neither past due nor impaired because these receivables are within credit period granted to the respective customers and the management considers the default rate is low for such receivables based on historical information and past experience. As at 31 December 2012 and 2011, there are no trade receivables that are past due but not impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

19. TRADE AND OTHER RECEIVABLES (Continued)

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB11,222,000 (2011: RMB100,000) which was under dispute and have passed the credit period.

Movement on allowance of trade receivables is as follows:

	2012 RMB'000	2011 RMB'000
At the beginning of the year	100	100
Impairment loss recognised in respect of trade receivables	11,122	–
At the end of the year	11,222	100

As at 31 December 2012, trade receivables amounting to approximately RMB11,122,000 were denominated in USD (2011: nil).

Included in other receivables is consideration receivable from disposal of a subsidiary amounting to approximately RMB 13,800,000 and a current account with the disposed subsidiary amounting to approximately RMB 2,650,000. Please refer to Note 29 for the details.

20. BANK BALANCES AND CASH

At 31 December 2012, the Group's bank balances and cash denominated in RMB amounted to approximately RMB25,462,000 (2011: RMB32,744,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

The bank balances and bank deposits carry average interest rate of 0.34% (2011: 0.50%) per annum.

Included in bank balances and cash are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2012 '000	2011 '000
HKD	–	151

21. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	722	1,758
Receipt in advance	27	26
Other payables	4,730	2,824
	5,479	4,608

The average credit period on purchase of goods ranges from 45 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
0 – 30 days	257	1,758
31 – 90 days	465	–
Total	722	1,758

22. AMOUNT DUE TO A CONTROLLING SHAREHOLDER

The amount is unsecured, non-interest bearing and repayable on demand.

23. SECURED BANK BORROWING

	2012 **RMB'000**	2011 RMB'000
Bank borrowing due within one year	–	10,000

The bank borrowing in 2011 carries interest at variable rate with reference to The People's Bank of China Prescribed Interest Rate with 15% mark up per annum for the year.

At 31 December 2011, the bank borrowings are secured by certain assets of the Group as set out in Note 31. There are unutilised banking facilities of HKD190,000,000 (equivalent to approximately RMB154,831,000) (2011: RMB5,000,000) at the end of the reporting period. The unutilised banking facilities as at 31 December 2012 represented facilities granted by China Construction Bank (Asia) Corporation Limited ("CCB Asia") for the issue of a pledged note (the "Pledge Note") in the amount of HKD190,000,000 secured by certain assets of the Company and Well Bright, the controlling shareholder of the Company as described in Note 35 (a).

24. CONVERTIBLE BONDS

On 11 July 2012, the Company issued HKD settled unsecured zero coupon convertible bonds in the principal amount of HKD21,300,000 ("CB") (equivalent to approximately RMB17,330,000) with maturity on 11 July 2015 to an independent third party for the acquisition of Rongxuan Group.

The principal terms of the CB are as follows:

Conversion rights

The holders of the CB are entitled to convert any part of the principal amount into new ordinary shares of the Company at a conversion price of HKD0.81 each from six months from the issue date up to the third anniversary of the date of issue of the CB.

Redemption at the option of the Company

The Company may at any time before the maturity date by serving at least 10 days' prior written notice on all of the CB holders with total amount to be redeemed specified therein, redeem the CB at 103% to the principal amount of the CB to be redeemed. Any amount of the CB which is redeemed by the Company will forthwith be cancelled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

24. CONVERTIBLE BONDS (Continued)

The principal terms of the CB are as follows: (Continued)

Redemption at maturity

Unless previously redeemed, converted, or purchased and cancelled, the CB will be redeemed on 11 July 2015 at 103% to the principal amount of the CB to be redeemed.

No conversion or redemption had taken place since the issue of the CB. As at 31 December 2012, the whole amount CB was outstanding.

As the functional currency of the Company is the HKD, the conversion of the CB will be settled by exchange of a fixed amount of cash in HKD with a fixed number of the Company's equity instruments. In accordance with the requirements of HKAS 39 Financial Instruments – Recognition and Measurement, the CB contract needs to be separated into a liability component consisting of the straight debt element of the CB, a number of embedded financial derivatives consisting of redemption options, and an equity component representing the conversion options of the bondholders to convert the CB into equity. The proceeds received from the issue of the CB have been split as follows:

(i) Liability component represents the fair value of the contractually determined stream of cash flows discounted at the prevailing market interest rate applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the embedded derivatives and the conversion features. The interest charged for the period is calculated by applying an effective interest rate of 14.99% to the liability component since the CB were issued.

(ii) Embedded derivatives comprise the fair value of the Company's redemption options.

(iii) Equity component represents the conversion options, which is determined by deducting the fair value of the liability component and financial derivatives from the fair value of assets acquired by issuance of the compound financial instrument as a whole.

The fair value of convertible bonds has been arrived at based on a valuation carried out by Ascent Partners. The fair value of the liability component of the CB was calculated using the discounted cash flow model. The major inputs used in the model as at 11 July 2012 were as follows:

	Liability component of the Company
Stock price	HKD1.20
Exercise price	HKD0.81
Risk-free rate	0.224%
Expected life	3 years
Volatility	100.29%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

24. CONVERTIBLE BONDS (Continued)

The fair values of the early redemption option derivative component of CB at the day of issue and at the end of the reporting period were calculated using binomial option pricing model. Major parameters adopted in the calculation of fair value are recognised below:

	31 December 2012	11 July 2012
Stock price	**HKD0.99**	HKD1.20
Exercise price	**HKD0.81**	HKD0.81
Risk-free rate	**0.118%**	0.224%
Expected life	**2.53years**	3 years
Volatility	**63.17%**	100.29%

Any changes in the major inputs used in the model will result in changes in the fair value of the liability and derivative component. The variables and assumptions used in calculating the fair value of the liability and derivative component are based on the Company's directors' best estimates.

The movements of the liability and derivative components of the above-mentioned convertible bonds for the year are set out below:

	Liability component RMB'000	Derivative component RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2012	–	–	–	
On the date of issuance of CB:				
– Principal amount of CB	11,751	(5,312)	10,891	17,330
– Fair value difference between net assets acquired and consideration paid included in convertible bonds equity reserves (Note 30)	–	–	1,553	1,553
Exchange realignment	8	–	–	8
Change in fair value of derivative financial asset	–	3,128	–	3,128
Effective interest expense (Note 9)	835	–	–	835
At 31 December 2012	12,594	2,184	12,444	22,846

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

25. SHARE CAPITAL

Movements of the authorised share capital of the Company during the year are as follows:

	Par value	Number of ordinary shares	Nominal value of ordinary shares
	HKD	’000	HKD’000
Authorised:			
At 1 January 2011, 31 December 2011 and 2012	0.01	1,000,000	10,000

	Par value	Number of ordinary shares	Nominal value of ordinary shares	
	HKD	’000	HKD’000	RMB’000
Issued and fully paid:				
At 1 January 2011, 31 December 2011 and 2012	0.01	370,000	3,700	3,256

26. RETIREMENT BENEFIT SCHEMES

The Group’s subsidiaries in the PRC, in compliance with the applicable regulations of the PRC, participate in social insurance schemes operated by the relevant local government authorities. The insurance premium is borne by the Group on a specified proportion of the employee’s salaries laid down under relevant PRC laws.

The total expense recognised in the consolidated statement of comprehensive income of approximately RMB8,396,000 (2011: RMB11,145,000) represents contributions payable to these scheme by the Group at rates or amount specified in the rules of the schemes.

The Group has no significant obligation apart from the contribution as above as at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

27. OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises and production plants under operating lease arrangements with leases negotiated for an average term of 1 to 3 years and rentals are fixed over the lease term.

At the end of the reporting period, the Group had the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 **RMB'000**	2011 RMB'000
Within one year	**212**	973
In the second to fifth year inclusive	**322**	1,399
	534	2,372

As at 31 December 2012, included in the above is commitment under non-cancellable operating leases of approximately RMB62,000 (2011: RMB62,000) which will expire in 2014 payable to Mr. Tsoi Kam On, the brother of Mr. Cai SY.

28. CAPITAL COMMITMENTS

As at 31 December 2012, the Group has capital expenditure in respect of the acquisition of a subsidiary authorised but not contracted for amounted to approximately RMB229,133,000.

With reference to the announcement of the Company dated 10 December 2012, on 10 December 2012, subject to certain conditions precedent, the Company had entered into agreement with an independent third party to acquire the entire issued capital of a company as described in Note 35 (b) for a consideration of HKD280,000,000 (equivalent to approximately RMB229,133,000) whereby, HKD136,000,000 shall be settled in cash and the remaining HKD144,000,000 shall be settled by the issuance of promissory note (the "Promissory Note") by the Company. Please refer to Note 35 (b) for details of the proposed acquisition and Note 35 (a) for details of the Promissory Note. As at the date of this report, the acquisition is still in progress and certain condition precedent have yet to be met for completion of the transaction.

29. DISPOSAL OF A SUBSIDIARY

On 27 December 2012, the Group disposed of its entire equity interests in 江西泓峰紡織有限公司, a wholly-owned subsidiary of the Group to Speedy Full Enterprise Limited, an independent third party for a total consideration of RMB13,800,000 receivable in cash. The net assets of the Company at the date of disposal were as follows:

	RMB'000
Consideration received:	
Deferred cash consideration	13,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

29. DISPOSAL OF A SUBSIDIARY (Continued)

Analysis of assets and liabilities over which control was lost:

	As at 27 December 2012 RMB'000
Property, plant and equipment	9,743
Prepaid lease payments	5,181
Trade and other receivables	2,095
Bank balances and cash	15
Trade and other payables	(3,522)
Tax liabilities	(562)
Net assets disposed of	12,950
Gain on disposal of a subsidiary:	
Consideration receivable	13,800
Net assets disposed of	(12,950)
Gain on disposal	850
Net cash outflow arising from disposal:	
Bank balance and cash disposed of	(15)

The directors of the Company expect the deferred consideration will be fully settled in cash by the purchaser on or before 30 April 2013.

30. ACQUISITION OF ASSETS ON AN ACQUISITION OF SUBSIDIARIES

On 11 July 2012, the Group completed to acquire 100% equity interests of Rongxuan Group from Mr. Huang Dongxiu, an independent third party, settled by the issuance of convertible bonds at a face value of HKD21,300,000 (equivalent to approximately RMB17,330,000). The acquisition has been accounted for as a share-based payment transaction in accordance with HKFRS 2 – Share-based Payment. The fair value of convertible bonds is RMB20,568,000 which determine with reference to the fair value of net assets acquired. The directors of the Company is of the opinion that the acquisition of Rongxuan Group is in substance an acquisition of assets, instead of an acquisition of business, as the principal assets included in Rongxuan Group was mainly the plantation forest assets in Yunnan without operation.

The plantation forest assets and prepaid lease payment have been recognised at their fair value of approximately RMB17,396,000 and RMB1,310,000 respectively based on the valuation carried out by Ascent Partners. The difference between the face value of the CB and fair value of assets acquired were credited to the Company's convertible bonds equity reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

30. ACQUISITION OF ASSETS ON AN ACQUISITION OF SUBSIDIARIES (Continued)

The effect of the acquisition is summarised as follows:

Consideration transferred

	RMB'000
Issuance of convertible bonds	17,330
Fair value difference between net assets acquired and consideration paid included in convertible bonds equity reserves (Note 24)	1,553
	18,883

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Plant and equipment	29
Plantation forest assets	17,396
Prepaid lease payment	1,310
Prepayments and other receivables	99
Bank balances and cash	111
Other payables and accruals	(62)
	18,883

Net cash inflow arising on the acquisition:	
Bank balances and cash acquired	111

31. PLEDGE OF ASSETS

The Group had pledged certain of its buildings and leasehold lands to secure banking facilities granted to the Group. At the end of the reporting period, the carrying values of these pledged assets are as follows:

	2012	2011
	RMB'000	RMB'000
Buildings	**1,403**	10,228
Leasehold lands	**1,081**	6,405
	2,484	16,633

During the year ended 31 December 2012, the banking facilities obtained from the pledge of such assets had expired and the pledged assets as at 31 December 2012 of approximately RMB2,484,000 with relation to such facilities was subsequently released.

As at 31 December 2012, the Company has pledged its entire equity interest of all subsidiaries under the Rongxuan Group to Maple Reach Limited ("Maple Reach"), as security for the pledged notes issued as described in Note 35 (b) to Maple Reach.

32. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a written resolution passed on 15 September 2009 for the primary purpose of providing incentives and rewards to directors of the Company and eligible participants. Since the Scheme has been adopted, no share option has been granted, exercised or cancelled by the Company. As at 31 December 2012, there are no outstanding share options under the Scheme (2011: Nil).

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2012, the Group's major non-cash transactions as follows:

(i) The deferred consideration for the disposal of a subsidiary in amount of approximately RMB13,800,000 was not received as at 31 December 2012. Further details of the disposal are set out in Note 29 above.

(ii) The Group purchased Rongxuan Group at a consideration of HKD21,300,000, payable by the issuance of convertible bonds at a face value of HKD21,300,000 (equivalent to approximately RMB17,330,000). Further details of the acquisition are set out in Note 30 above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

34. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the consolidated financial statements, the Group entered into the following significant related party transactions during the year:

(a) Rental expenses incurred

		2012 RMB'000	2011 RMB'000
Mr. Tsoi Kam On	Note	**29**	29

Note: Mr. Tsoi Kam On is the brother of Mr. Cai SY. In the opinion of the directors of the Company, the transactions were conducted on normal commercial terms and in the ordinary course of business.

(b) Remuneration of directors and other members of key management

	2012 RMB'000	2011 RMB'000
Salaries and other allowances	**318**	320
Retirement benefits scheme contributions	**13**	33
	331	353

A remuneration committee is set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

35. EVENTS SUBSEQUENT TO THE END OF REPORTING PERIOD

(a) On 15 November 2012, the Company entered into agreement with Maple Reach, a wholly owned subsidiary of CCB Asia, both are independent third parties, who had agreed to subscribe for the pledged note in the amount of HKD190,000,000 to be issued by the Company with an interest rate of 15% per annum, a redemption premium of HKD26,610,000 and a maturity date of 2 years after the issue date. The Pledged Note is also redeemable by the Company after 6 months from the issue date with written notification from the Company to Maple Reach.

The Pledged Note shall be secured by the 179,450,000 shares of the Company owned by Well Bright, the controlling shareholder of the Company, an additional 7,400,000 shares of the Company owned by other independent shareholders, the Company's entire equity interest of all subsidiaries under the Rongxuan Group and the Group's entire equity interest of all subsidiaries under the China Timber Group upon completion of its acquisition (the "Relevant Securities"). The purpose for the issue of the Pledged Note is to provide funding for the cash consideration portion of the acquisition of China Timbers Limited as described in section (b) below.. Other than the equity interest of subsidiaries under the China Timber Group, all of the Relevant Securities are pledged to CCB Asia as at 31 December 2012.

The issuance of Pledged Note was completed on 8 January 2013 and parts of the funds raised by the issuance of the Pledged Note totaling HKD60,000,000 was drawn by the Company on the same date as funding for the payment of a first refundable deposit with regards to the proposed acquisition as described in section (b) below. Further details on the Pledged Note are set out in the Company's announcement dated 16 November 2012.

(b) As disclosed in Note 28, on 10 December 2012, the Company entered into an acquisition agreement with an independent third party, Mr. Du Jianjun (the "Vendor"), for the acquisition of 100% equity interest in China Timber Limited and its subsidiaries (collectively referred to as the "China Timber Group"). According to the supplemental agreement dated 26 March 2013 the acquisition shall be made for an aggregate consideration of HKD280,000,000 of which HKD136,000,000 shall be satisfied in cash and the remaining HKD144,000,000 shall be satisfied by issuing of Promissory Note to the Vendor.

Up to the date of approval of the consolidated financial statements, a first refundable deposit with regards to the proposed acquisition amounting to RMB60,000,000 in cash funded by the issuance of the Pledge Note as described in section (a) above had been deposited by the Company on 9 January 2013 to a number of nominee accounts designated by the Vendor.

The management represents that the acquisition is still in progress and the Promissory Note has not been issued as at 31 December 2012 and subsequent to the date of approval of the consolidated financial statements. Further details on the acquisition are set out in the Company's announcement dated 10 December 2012, 2 January 2013 and 26 March 2013.

(c) On 18 January 2013, the Company entered into the warrant subscription agreements with seven subscribers, pursuant to which the Company agreed to issue, and the seven subscribers agreed to subscribe for an aggregate of 22,000,000 unlisted warrants at the issue price of HKD0.01 per warrant. Pursuant to the warrant subscription agreements, the holders of the unlisted warrants will be entitled to subscribe for up to 22,000,000 new shares at the initial subscription price of HKD0.99 per share for a period of 3 years commencing from the date of the issuance of the warrants. Issuing of the warrant was completed on 28 March 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

36. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2012 RMB'000	2011 RMB'000
Non-current asset			
Investments in subsidiaries		**19,210**	325
Current assets			
Other receivables		**55**	394
Amount due from a subsidiary	(a)	**6,201**	7,192
Bank balances and cash		**585**	49
Derivative financial asset		**2,184**	–
		9,025	7,635
Current liabilities			
Other payables		**2,436**	469
Amount due to a subsidiary	(a)	**469**	471
		2,905	940
Net current assets		**6,120**	6,695
Total assets less current liabilities		**25,330**	7,020
Non-current liabilities			
Convertible bonds		**12,594**	–
Net assets		**12,736**	7,020
Capital and reserves			
Share capital		**3,256**	3,256
Reserves	(b)	**9,480**	3,764
Total equity		**12,736**	7,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

36. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) Amounts due from (to) subsidiaries are unsecured, non-interest bearing and repayable on demand.

(b) Reserves

	Share premium RMB'000	Convertible bonds equity reserves RMB'000	Translation reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	10,642	–	–	(2,770)	7,872
Loss and total comprehensive expenses for the year	–	–	–	(4,108)	(4,108)
At 31 December 2011 and 1 January 2012	10,642	–	–	(6,878)	3,764
Loss for the year	–	–	–	(6,706)	(6,706)
Other comprehensive income					
Exchange difference arising on translation	–	–	(22)	–	(22)
Total comprehensive expense for the year	–	–	(22)	(6,706)	(6,728)
Recognition of equity component of convertible bonds	–	12,444	–	–	12,444
At 31 December 2012	10,642	12,444	(22)	(13,584)	9,480

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2012

37. SUBSIDIARIES

Details of the subsidiaries at 31 December 2012 and 2011, are as follows:

Name of company	Place of incorporation/ establishment/ operations	Class of shares held	Equity interest attributable to the Group Direct		Indirect		Capital contributed by the Group		Principal activities
			2012	2011	2012	2011	2012	2011	2012 & 2011
Newshine International Limited 新光國際有限公司	BVI	Ordinary	100%	100%	-	-	USD1	USD1	Investment holding
Sino Prosper 華盛(亞洲)有限公司	Hong Kong	Ordinary	-	-	100%	100%	HKD1	HKD1	Investment holding
Wannianxian Xiefeng Textiles and Garments Co., Ltd. #* 萬年縣協豐紡織服飾有限公司	The PRC	Contributed Capital	-	-	100%	100%	HKD3,200,000	HKD3,200,000	Manufacturing and wholesaling of apparels
Wan Nian County Xiang Yun Fibers and Fabrics Co., Ltd. #* 萬年縣祥雲纖維紡織有限公司	The PRC	Contributed Capital	-	-	100%	100%	USD1,300,000	USD1,300,000	Manufacturing and wholesaling of apparels
Jiangxi Province Wan Nian Xing Textiles and Dress Co., Ltd. #* 江西省萬年興紡織服裝有限公司	The PRC	Contributed Capital	-	-	100%	100%	USD1,300,000	USD1,300,000	Manufacturing and wholesaling of apparels
Hongfeng Textile #* 江西泓峰紡織有限公司	The PRC	Contributed Capital	-	-	-^	100%	-	RMB13,779,899	Manufacturing and wholesaling of apparels
Rongxuan Forestry Investment Holding Limited+ 榮軒林業投資控股有限公司	BVI	Ordinary	100%	-	-	-	USD50,000	-	Investment holding
Rongxuan Forestry Investment Group Limited+ 榮軒林業投資集團有限公司	Hong Kong	Ordinary	-	-	100%	-	HKD10,000	-	Investment holding
YuePengDa Forestry (Shenzhen) Ltd.#*+ 岳鵬達木业(深圳)有限公司	The PRC	Contributed Capital	-	-	100%	-	RMB6,680,000	-	Investment holding
Dalinanhai Forestry Ltd.*+^ 大理藍海林业有限公司	The PRC	Contributed Capital	-	-	100%	-	RMB1,000,000	-	Management of plantation forest assets

\# These entities are wholly-foreign owned enterprises established in the PRC.

* The English translation of the Chinese name is for identification purpose only and should not be regarded as the official English name of the court.

^ The subsidiary was fully disposed of on 27 December 2012.

\+ The subsidiaries were acquired by the Group on 11 July 2012.

None of the subsidiaries had any debt securities outstanding as at the end of both years or at any time during both years.