CHINA FORESTRY HOLDINGS CO., LTD.
中國森林控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE：930

ANNUAL REPORT 2012

CORPORATE MISSION

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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Kwok Cheong (Chairman)
Mr. Lin Pu

Non-Executive Directors

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

Independent Non-executive Directors

Ms. Hsu Wai Man, Helen
Mr. Liu Can
Dr. Liu Yong Ping (appointed on 18 September 2012)
Mr. Zhu De Miao (resigned on 18 September 2012)
Mr. Wong Tak-jun (resigned on 1 August 2012)

AUDIT COMMITTEE

Ms. Hsu Wai Man, Helen (Chairlady)
Mr. Liu Can
Dr. Liu Yong Ping (appointed on 18 September 2012)
Mr. Zhu De Miao (resigned on 18 September 2012)
Mr. Wong Tak-jun (resigned on 1 August 2012)

REMUNERATION COMMITTEE

Ms. Hsu Wai Man, Helen (Chairlady)
(appointed on 1 August 2012)
Mr. Xiao Feng
Dr. Liu Yong Ping (appointed on 18 September 2012)
Mr. Zhu De Miao (resigned on 18 September 2012)
Mr. Wong Tak-jun (resigned on 1 August 2012)

NOMINATION COMMITTEE

Mr. Li Kwok Cheong (Chairman)
Mr. Liu Can
Dr. Liu Yong Ping (appointed on 18 September 2012)
Mr. Zhu De Miao (resigned on 18 September 2012)

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

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

AUDITORS

Crowe Horwath (HK) CPA Limited
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay,
Hong Kong

LEGAL ADVISERS

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

WEBSITE ADDRESS

www.chinaforestryholding.com

STOCK CODE

00930

SHARE INFORMATION

Board lot size: 2,000

Li Kwok Cheong
Chairman

CHAIRMAN'S STATEMENT

Dear Shareholders and Stakeholders,

After the completion of both an independent investigation and an Internal Control Review of the Group in April 2012, China Forestry has committed effort to resuming its business operations, expanding its downstream businesses and strengthening its internal controls for future sustainable growth.

As the leading private operator of naturally regenerated forests and plantation forests, China Forestry has been exploring downstream businesses to capture opportunities throughout the industry value chain. Apart from its traditional harvesting business, in 2012, China Forestry continued to focus on expanding the scope of its business to wood trading, wood processing, wood-frame house construction and forestry technology development to execute the Group's vertically-integrated business strategy.

During the review period, China Forestry further enhanced its core business as its harvesting activities gradually recovered. By the end of 2012, the Group had forest assets of approximately 154,000 hectares, of which approximately 109,000 hectares with Forestry Ownership Certificates. In addition, the wood trading and wood processing businesses performed steadily.

The acquisition of Triple Success, in April 2012, allowed the Group to take advantage of the growth opportunities brought about by an increasing demand for high-end wood products in both China and overseas. Triple Success, one of the largest high-end wood processing plants in Asia and which currently exports its products primarily to Japan, has already made initial contributions to the Group's business performance toward the end of last year.

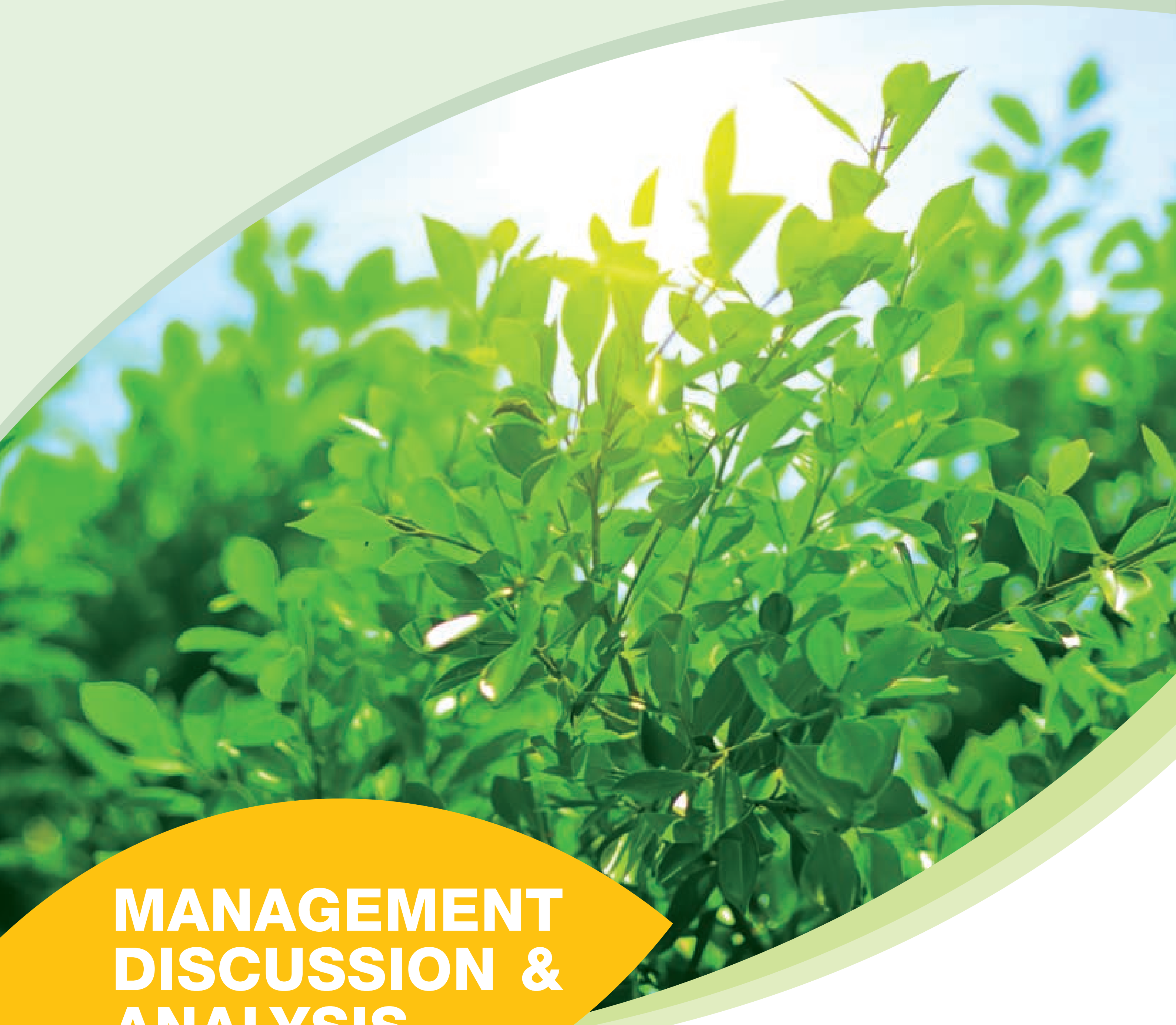
There is also increasing synergy achieved between wood trading and processing as the Group leverages its trading platform, sourcing more quality wood logs from Russia for the operations of Triple Success.

To further expand downstream, the Group launched a wood-frame house manufacturing and construction business in early 2012. The business is at an early stage of development and the Group continues to capitalize on the trend of a green-living concept in China and the growing demand in the tourism industry.

Looking ahead, the Group is optimistic about the outlook for the forestry industry in 2013 given the solid market demand for wood products supported by a steady Chinese economy. China Forestry will continue to progressively implement its vertically-integrated development strategy while focusing efforts on the recovery of its harvesting activities. The Group is fully convinced of the strategic value Triple Success will bring to the business and is on track to ramp up its production in 2013.

Last but not least, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude for the outstanding contributions and dedicated efforts of the management and the other members of our group, as well as the understanding and unwavering support of our shareholders, creditors and other stakeholders.

Li Kwok Cheong
Chairman of the Board
Hong Kong, 30 April 2013



MANAGEMENT DISCUSSION & ANALYSIS

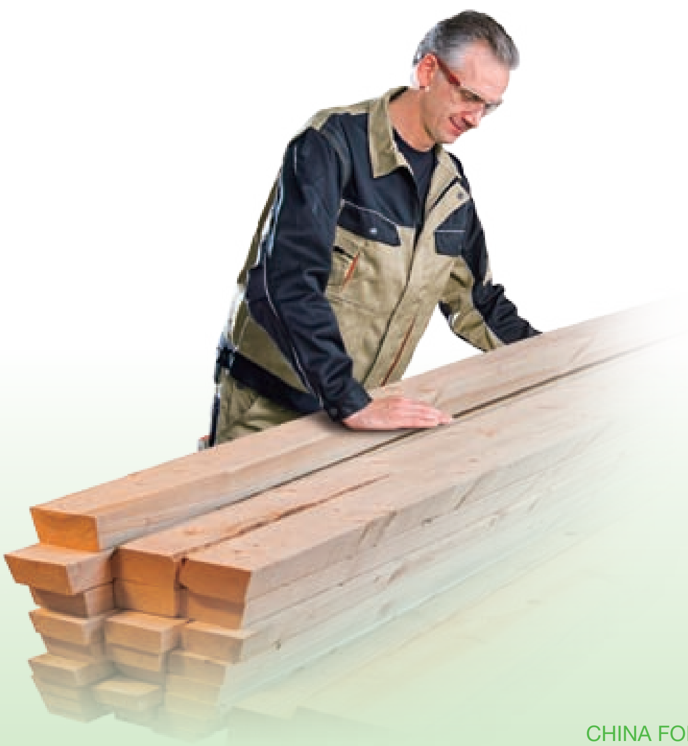
We are committed to environmental protection and social responsibility.

BUSINESS REVIEW

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

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

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



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

Wood Trading

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

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

Harvesting

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

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

Wood Processing

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

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

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

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

Wood-frame House

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

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

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

FINANCIAL REVIEW

The financial review is prepared based on the information available to the directors as of the date of this annual report.

Revenue

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

Wood Trading Activities

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

Harvesting Activities

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

Wood Processing and Construction Services

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

Cost of inventory sold

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

Staff Cost

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

Changes in fair value less costs to sell and other reconciling items

The changes in fair value less costs to sell and other reconciling items amounted to RMB858.2 million, which mainly represented the decrease in fair value of plantation assets less cost to sell for the year ended 31 December 2012 resulted from the insufficient information available for Chandler Fraser Keating Limited ("CFK"), the independent forestry valuer appointed by the Group, to undertake a valuation of the plantation assets of Yunnan province of the Group as at 31 December 2012. CFK has had to make subjective judgements as to the stocked area, species composition and yield of the forest based upon a high level inspection of a limited number of forest areas and discussion with the staff of the Group.

Impairment of lease prepayment

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

Impairment of trade and other receivables

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

Write down of Inventories

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

Impairment loss on prepayment for purchase of inventories

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

Other operating expenses

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

Depreciation

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

Foreign exchange loss

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

Income tax

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

Loss for the year

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

Dividend

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

Liquidity and Financial Resources

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

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

Borrowing

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

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

We are dedicated to carrying out research and development

Pledge of Assets

The Senior Notes were secured by the shares of the Company's subsidiaries incorporated in Hong Kong and BVI, and were subject to the fulfilment of certain financial and non-financial covenants relating to the Group, as commonly found in lending arrangements in high yield senior notes. If the Group was to breach the covenants, the principal and, accrued and unpaid interest of the Senior Notes would become payable on demand. The Directors consider that none of the covenants had been breached as at 31 December 2012.

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

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

Financial Instruments

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

Gearing ratio

The Group's gearing ratio is total debts over its total assets. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2012 was 0.58 (2011: 0.41).

Employee and Remuneration Policy

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

The remuneration of employees was based on their performance, skills knowledge, experiences and market trend. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment commensurate with the pay level in the industry. In addition to basic salaries, employees may be offered with discretionary bonus and cash awards based on individual performance. The Group has also adopted a share option scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution.

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

During the year ended 31 December 2012, the Group, through its subsidiary, China Zhaoneng Group Limited, bought back an aggregate principal amount of US$6,500,000 of its Senior Notes due 2015. Details are set out in Note 25 and Note 30 to the financial statement of this annual report.

PROSPECTS

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

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

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

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

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

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

Directors and Senior Management

EXECUTIVE DIRECTORS

Li Kwok Cheong (李國昌), aged 55, is our executive Director and chairman. He was appointed as a Director on 21 December 2007. Mr. Li is mainly responsible for the Group's strategic development and oversees the Group's operations and investments. Mr. Li graduated from 中華全國律師函授中心 (Chinese Nation Attorney Teaches by Correspondence the Center), an organisation assisting self-learners in legal higher education examination in China, in June 1987. Mr. Li is an entrepreneur and had invested in tobacco trading from 1993 to 2001, before co-founding the Group in 2001. Mr. Li is the council member of the China Council for the Promotion of Environment and Forestry ("CCPEF"). Mr. Li has over 16 years of experience in management, of which over 8 years of experience in the forestry industry. Mr. Li is the sole director of Kingfly Capital Limited, which is a substantial shareholder of the Company.

Lin Pu (林普), aged 53, is our executive Director and was appointed as a Director on 1 January 2011. Mr. Lin is the Head of Yunnan operation. Mr. Lin has more than 20 years of experience in the financial services sector. He graduated with a bachelor's degree in Banking Computer Management and Application in 1987 from Zhejiang Engineering College, currently known as Zhejiang University of Science & Technology, a bachelor's degree in Economics in 1998 from Hangzhou University, currently known as Zhejiang University, and a master's degree in Business Administration in 2003 from Macau University of Science and Technology. Prior to joining the Company, he was the vice president of Zhejiang Crea-union Information Technology Co., Ltd. and the general manager of Beijing Crea-union Longsheng Information Technology Co., Ltd. from 2003 to 2008.

NON-EXECUTIVE DIRECTORS

Xiao Feng (肖楓), aged 40, is our non-executive Director. He was appointed as a Director on 8 January 2008 when the Carlyle Funds invested in us and nominated him to our Board. Mr. Xiao is a managing director of the Carlyle Group focused on growth capital investment in China. Prior to joining Carlyle in April 2005, Mr. Xiao was a Vice General Manager at China International Capital Corporation, a well-known investment bank in China, from January 2000 to April 2005. Mr. Xiao received his Master of Business Administration from the China Europe International Business School in April 2000. He obtained a Lawyer's Qualification Certificate in China issued by Ministry of Justice of PRC in June 1997. He also obtained a bachelor degree in electronics and computer science technology and a Bachelor of Arts in English from Tsinghua University in July 1995. Mr. Xiao was appointed as a director of Xtep International Holdings Limited (which shares are listed on the Hong Kong Stock Exchange (Stock code: 1368)) in September 2007 and became its non-executive director in January 2008.

Li Zhi Tong (李志同), aged 70, is our non-executive Director. He was appointed as a Director on 3 April 2008. From 19 April 2005 to 18 April 2008, he was our consultant and advised us on forestry matters. Mr. Li acquired his forestry experience by being the vice chairman of the CCPEF since 2001 and having served as a major general at the PRC forestry security bureau (森林公安局) previously. Mr. Li was also the first grade forestry police superintendent in China.

Meng Fan Zhi (孟繁志), aged 48, is our non-executive Director. He was appointed as a Director on 1 January 2011. Mr. Meng has more than 10 years of experience in the forestry industry. Apart from his appointment with the Company, he has been acting as the deputy chairman of The China Council for the Promotion of Environment and Forestry since 2010. Prior to his appointment as the deputy chairman, Mr. Meng had been acting as the secretary-general since 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Hsu Wai Man, Helen (徐慧敏), aged 42 is our independent non-executive Director. She was appointed as a Director on 5 July 2011. Ms. Hsu has over 18 years experience in accounting. Ms. Hsu graduated from The Chinese University of Hong Kong with a bachelor degree in business administration. Ms. Hsu had been working with Ernst & Young for 18 years and was a partner of Ernst & Young before she retired from the firm in February 2011. Ms. Hsu is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Ms. Hsu is also a member of the advisory board of the School of Accountancy of The Chinese University of Hong Kong.

Liu Can (劉璨), aged 46, is our independent non-executive Director. He was appointed as a Director on 11 August 2008. He obtained a master degree in agriculture from Nanjing Forestry University in November 1992 and a PhD degree in management from China Agriculture University in July 2000. From September 2002, Mr. Liu has been an honorary professor and post-graduate student tutor of Economic Management School of China Agriculture University (中國農業大學經濟管理學院), and from November 2006, a visiting professor of Qingdao Agriculture University (青島農業大學). He has been conducting research for the Economic Development Research Centre of the China Forestry Scientific Research Academy established by SFA (中國林業科學院經濟發展研究中心). Mr. Liu has written books relating to forestry.

Liu Yong Ping, aged 57, is a practicing solicitor in Hong Kong and a consultant of a firm of solicitors in Hong Kong. Dr. Liu has more than 18 years of experience in the capital market and merger and acquisition legal services sector. Dr. Liu graduated from the University of London with a master's degree in law in 1987 and from the University of Oxford with a doctor's degree in philosophy in 1994. Apart from his appointment with the Company, Dr. Liu has been acting as an independent non-executive director of Yue Da Mining Holdings Limited, a company listed on the main board of the Hong Kong Stock Exchange (Stock Code: 629), since June 2010. Dr. Liu has also been acting as an independent non-executive director and chairman of the remuneration committee of JF Household Furnishings Limited, a company listed on the main board of the Hong Kong Stock Exchange (Stock Code: 776), since August 2011.

SENIOR MANAGEMENT

Tong Wai Kit, Raymond (唐偉傑), aged 40, is the joint chief financial officer and company secretary of our group. Mr. Tong is primarily responsible for overseeing our group's financial reporting procedures, internal controls and compliance with the Hong Kong Listing Rules and other relevant laws and regulations. He joined our group in April 2008, and has over 13 years working experience in the related fields of finance, audit and accounting. Prior to joining our group, Mr. Tong, from July 2006 to December 2007, worked as a chief financial officer, company secretary and qualified accountant for ZZNode Technologies Company Limited, which is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC and which shares are listed on the Hong Kong Stock Exchange (stock code: 2371). From March 2004 to June 2006, Mr. Tong worked as a joint company secretary for China Minsheng Banking Corporation Limited, and from April 2003 to December 2003, he worked as a chief financial officer and company secretary for Nanjing Dahe Outdoor Media Company Limited (currently known as Dahe Media Co., Ltd.), which is an outdoor advertising service provider in the PRC and which shares are listed on the Growth Enterprise Market of Hong Kong Stock Exchange (stock code: 8243). Mr. Tong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated in June 1995 from Hong Kong Polytechnic University with a bachelor's degree in accountancy.

Xu Jia Zeng (徐嘉曾), aged 36, is the head of internal audit of our Group for its business operations in the PRC and responsible for financial management and financial reporting of the PRC subsidiaries of the Group. He joined our Group in April 2011. Mr. Xu is a member of the Chinese Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He is also a Certified Internal Auditor. He has over 10 years of experience in accounting and financial consulting. Prior to joining the Group, Mr. Xu was a senior manager at Resources Global Professionals and was responsible for financial due diligence and consulting from 2009 to 2011. From 2007 to 2009, he was a manager of Deloitte Consulting (Shanghai) Co., Ltd., Beijing Branch. From 1999 to 2007, he was employed at the audit department and corporate consulting departments of Ernst & Young, an international accounting firm.

Liu Lan (劉嵐), aged 43, is the Group's Financial Controller in mainland China. Before she joined the Group in August 2012, Ms. Liu was Financial Controller of HAWTAI MOTOR Group between 2008 and 2012. From 2005 to 2008, she served as Financial Controller of the IT Division of Sino-I Technology Limited; from 2001 to 2005, Finance Manager of Advantage China Holdings Limited; from 1998 to 2001, Finance Manager and Administration Manager of TransAsia Lawyers; from 1994 to 1998, Finance Executive of ZhongqiAnhua Automotive Services Limited, and from 1991 to 1993, accountant at Bejing Shun Tian Tong Real Estate Development Co., Ltd. In 1991, she graduated from Helongjiang Business College in accounting.

Wei Bin (魏斌), aged 39, is the acting general manager of Chengdu Yishang Forestry Resources Development Co., Ltd. and Guizhou Wosen Forestry Development Co., Ltd., the subsidiaries of our group. He joined our group in March 2011. Mr. Wei is familiar with the tax policy and skilled at tax strategy planning. He has been engaged in investment, financing and securities margin financing for many years. He is a master of financial management and accounting, successful acquisition and disposal of non-performing loans. Mr. Wei is the senior accountant and a member of Jiu San Society. Prior to joining our group, Mr. Wei was the general manager of Hebei Fulin Investment Management Company from 2007 to 2011. He was the manager of the investment department of Bohai Trust Limited Company of HNA Group from 2003 to 2007. He was the deputy general manager of Xinda Import and Export Corporation of Hebei Province from 2000 to 2003. He was the tax specialist and finance manager of International Trust Investment Company of Hebei Province successively from 1994 to 2000. He graduated from Hebei Finance and Economics College in 1994, with a bachelor degree of Economics in Accountancy.

Perederienko Leonid (列昂彼), aged 61, is head of wood frame house of the Group. He joined our group in December 2011. Prior to joining our group, Mr. Leonid was the legal representative of Beijing Aodi Building Materials Holdings Limited from 1994 to 2011. He was the general manager of Urbitex Austrdia from 1981 to 1994. Mr. Leonid graduated from the University of Western Sydney of Business in 1975 with a bachelor's degree.

Xiang Ying Meng (項應夢), is the chief resource officer of our group. He overseas our overall forestry management and the operation of resources management department. He joined our group since 2010. Mr. Xiang graduated from Hunan College of Finance and Economics, holds a bachelor degree in economic management. He worked for Forestry bureau since 1996. He has more than 10 years of forestry-related working experience.

Directors' Report

The Directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

Details of the Company's principal subsidiaries as at 31 December 2012 are set out in note 19 to the financial statements of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 46 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: Nil).

PROPERTY, PLANT AND EQUIPMENT AND PLANTATION ASSETS

Details of the property, plant and equipment and plantation assets of the Group during the year are set out in notes 16 and 18 to financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 33 to the financial statements of this annual report.

SENIOR NOTES

In November 2010, the Company issued senior notes in the aggregate principal amount of US$300 million maturing on 17 November 2015 with an interest rate of 7.75% per annum for forest acquisition and general corporate purposes. In August 2011, the Company repurchase an aggregate principal amount of US$120 million through a tender offer. After the tender offer, US$180 million in an aggregate amount of senior notes remain outstanding bearing interest at the increased rate of 10.25% per annum. Details of the senior notes of the Company are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2012 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 49 of this annual report.

As at 31 December 2012, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association amounted to RMB1,091,958,000.

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

The reserves of the Group available for distribution depend on the dividend distributable by the Company's subsidiaries. For dividend purpose, the amount which the Company's subsidiaries in the PRC can legally distribute by way of a dividend is determined by reference to their distributable profits as reflected in the

PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These distributable profits differ from those that are reflected in the Group's financial statements prepared in accordance with the IFRSs.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 132 of this annual report.

LOANS AND BORROWINGS

Particulars of loans and borrowings of the Company and the Group as at 31 December 2012 are set out in note 30 to the financial statements of this annual report.

CHARITABLE DONATIONS

During the year, the Group did not make any charitable and other donations (2011: RMB3 million).

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	21.6%	
Five largest customers in aggregate	67.2%	
The largest supplier		9%
Five largest suppliers in aggregate		20%

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

DIRECTORS

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

Executive Directors

Mr. Li Kwok Cheong (Chairman)
Mr. Lin Pu

Non-Executive Directors

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

Independent Non-executive Directors

Ms. Hsu Wai Man, Helen
Mr. Liu Can
Dr. Liu Yong Ping (appointed on 18 September 2012)
Mr. Zhu De Miao (resigned on 18 September 2012)
Mr. Wong Tak-jun (resigned on 1 August 2012)

Biographical details of the above Directors are set out in the section headed "Directors and Senior Management" on pages 15 to 17 of this annual report.

In accordance with articles 84(1) and 84(2) of the Company's articles of association, Mr. Lin Pu, Mr. Li Zhi Tong and Dr. Lin Yong Ping will retire from the Board by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

REMUNERATION OF THE DIRECTORS

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

Details of the remuneration of the Directors are set out in note 11 to the financial statements of this annual report.

REMUNERATION POLICY

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

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(a) Long positions in Shares

Long Positions in our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Li Kwok Cheong [(1)]	Interest of a controlled corporation	1,556,950,000	50.87%
	Security interest	75,000,023	2.45%

Note:

(1) Kingfly Capital Limited ("Kingfly Capital") is wholly-owned and controlled by Mr. Li Kwok Cheong and Mr. Li Kwok Cheong is therefore deemed to be interested in the Shares held by Kingfly Capital. Kingfly Capital has a security interest over 75,000,023 Shares, representing approximately 2.45% of the interest in the Company held by Top Wisdom Overseas Holdings Limited ("Top Wisdom").

Save as disclosed above, as at 31 December 2012, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

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

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

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

On 7 September 2010, the Company granted 42,750,000 options to a director, senior management and key employees. 1,250,000 and 34,250,000 options have been lapsed during year 2012 and 2011 respectively. For further details on the financial aspects of the share options, please refer to note 31 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

RETIREMENT BENEFITS SCHEMES

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the "Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of approximately 20% of the standard wages determined by the relevant authorities during the year ended 31 December 2012. Contributions to the Schemes vest immediately.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000. Contributions to the MPF scheme vest immediately. Save for the above schemes, the Group has no other material obligation for the payment of retirement benefits beyond the contributions described above.

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

So far as is known to any Directors or chief executives of the Company, as at 31 December 2012, Shareholders (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions:

Name	Notes	**Capacity/Nature of interest**	**Number of Shares**	**Approximate percentage of shareholding**
Kingfly Capital	1	Beneficial Owner Security Interest	1,556,950,000 75,000,023	50.87% 2.45%
Mr. Li Kwok Cheong	1	Interest in controlled corporation Security Interest	1,556,950,000 75,000,023	50.87% 2.45%
Silver Capital Enterprise Limited	2	Security interest	400,000,000	13.07%
Mr. Wong Moon Hei	2	Interest in controlled corporation	400,000,000	13.07%
Carlyle Asia Growth Partners III L.P. ("CAGP")	3	Beneficial owner	322,650,000	10.54%
CAGP General Partner, L.P.	3	Interest in controlled corporation	335,475,000	10.96%
CAGP Ltd.	3	Interest in controlled corporation	335,475,000	10.96%
TC Group Cayman Investment Holdings, L.P.	3	Interest in controlled corporation	335,475,000	10.96%
TCG Holdings Cayman II, L.P	3	Interest in controlled corporation	335,475,000	10.96%
Carlyle Offshore Partners II, Limited	3	Interest in controlled corporation	335,475,000	10.96%
Partners Group AG	4	Investment Manager	165,150,000	5.40%
Partners Group Holding AG	5	Interest in controlled company	165,150,000	5.40%

Notes:

1. Kingfly Capital is wholly-owned and controlled by Mr. Li Kwok Cheong and Mr. Li Kwok Cheong is therefore deemed to be interested in the Shares held by Kingfly Capital Limited.

   Kingfly Capital, as the chargee in respect of a charge made by Top Wisdom as the chargor over 75,000,023 Shares representing approximately 2.45% of the issued share capital of the Company, has a security interest over such Shares.

2. Silver Capital Enterprise Limited is wholly owned by Mr. Wong Moon Hei.

3. CAGP General Partner, L.P. is the general partner of CAGP and CAGP III Co Investment, L.P. which collectively are interested in 10.96% of the total issued share capital of the Company. CAGP General Partner, L.P. itself acts by its general partner, CAGP Ltd., which in turn is 100% owned, controlled and managed by TC Group Cayman Investment Holdings, L.P., the general partner of which is, TCG Holdings Cayman, L.P.. Carlyle Offshore Partners II, Limited is the general partner of TCG Holdings Cayman II, L.P.. Each of CAGP General Partner, L.P., CAGP Ltd., TC Group Cayman Investment Holdings, L.P., TCG Holdings Cayman II, L.P. and Carlyle Offshore Partners II is deemed to be interested in the Shares held by CAGP and CAGP Co investment.

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

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

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

AUDIT COMMITTEE

The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their written terms of reference are in line with the Corporate Governance Code provisions. The audit committee consists of three members, namely, Ms. Hsu Wai Man, Helen, Mr. Liu Can and Dr. Liu Yong Ping (appointed on 18 September 2012), all of whom are independent non-executive Directors. Ms. Hsu Wai Man, Helen is the chairlady of the audit committee.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the financial statements of the Group for the year ended 31 December 2012.

REMUNERATION COMMITTEE

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

The remuneration committee currently comprises one non-executive Director, Mr. Xiao Feng and two independent non-executive Directors, Ms. Hsu Wai Man, Helen (Chairlady) and Dr. Liu Yong Ping.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the year ended 31 December 2012.

CODE OF CORPORATE GOVERNANCE PRACTICE

The Company has adopted the Corporate Governance Code as its own code of corporate governance. Save as otherwise disclosed in the Corporate Governance Report, the Company has complied with the code provisions of the Corporate Governance Code throughout the period from the Listing Date to 31 December 2012.

For details of the Corporate Governance Report, please refer to pages 27 to 36 of this annual report.

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

During the year ended 31 December 2012, the Company, through its subsidiary, China Zhaoneng Group Limited, purchased an aggregate principal amount of US$6,500,000 of its Senior Notes due 2015.

Details are set out in Note 25 and Note 30 to the financial statement of this annual report.

RELATED PARTY TRANSACTIONS

Material related party transactions during the year are disclosed in note 34 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing to 31 December 2012.

SUSPENSION OF TRADING

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

On behalf of the Board
Li Kwok Cheong
Chairman

30 April 2013

CORPORATE GOVERNANCE CODE

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "**Old Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and renamed it the Corporate Governance Code (the "**New Code**", together with the "**Old Code**", the "**CG Code**"). The New Code took effect on 1 April 2012.

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organisation which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

Save as disclosed below, during the period from 1 January 2012 to 31 March 2012, the Company has complied with the Old Code, and during the period from 1 April 2012 to 31 December 2012, the Company has complied with the New Code:

Code Provision A.2.1

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

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

Code Provision A.6.7

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

(A) BOARD OF DIRECTORS

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

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

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

Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the year ended 31 December 2012.

Chairman and Chief Executive Officer

During the period from 1 January 2012 to 14 April 2012, the roles of chairman and the acting chief executive officer were held separately by Mr. Li Kwok Cheong and Mr. Li Jian, respectively, and their roles and responsibilities were separate. The chairman was responsible in leading the Board in forming the Group's strategies and policies and for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group. The acting chief executive officer was directly in charge of the daily operations of the Group and was accountable to the Board for the financial and operational performance of the Group. Since the resignation of Mr. Li Jian from his position as the acting chief executive officer of the Company on 15 April 2012, Mr. Li Kwok Cheong has taken up the role of the acting chief executive officer of the Company. The Company is in the process of identifying suitable candidates to act as the chief executive officer of the Company and will make an announcement in accordance with the Listing Rules once a new chief executive officer is appointed.

Independent Non-executive Directors

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

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

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

Training and Support for Directors and Continuous Professional Development

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with code provision A.6.5 of the New Code on continuous professional development for the year ended 31 December 2012:

	Corporate Governance/ Updates on Laws, Rules and Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read materials	Attend Seminars/ Briefings	Read materials	Attend Seminars/ Briefings
Executive Directors				
Mr. Li Kwok Cheong	✓	✓	✓	–
Mr. Lin Pu	✓	–	✓	–
Non-executive Directors				
Mr. Xiao Feng	✓	✓	✓	–
Mr. Li Zhi Tong	✓	✓	✓	–
Mr. Meng Fan Zhi	✓	✓	✓	✓
Independent Non-executive Directors				
Ms. Hsu Wai Man, Helen	✓	✓	✓	✓
Mr. Wong Tak-jun (resigned on 1 August 2012)	✓	–	✓	✓
Mr. Zhu De Miao (resigned on 18 September 2012)	✓	✓	✓	–
Mr. Liu Can	✓	✓	✓	–
Mr. Liu Yong Ping (appointed on 18 September 2012)	✓	–	✓	✓

Directors' and Officers' Insurance

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

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications. The number of the board meetings held and the attendance of each Director at these meetings for the year ended 31 December 2012 have been set out as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Independent Board Committee
No. of meetings held	9	2	1	1	1
No. of meetings attended					
Executive Directors					
Mr. Li Kwok Cheong	8	N/A	N/A	1	N/A
Mr. Lin Pu	8	N/A	N/A	N/A	N/A
Non-executive Directors					
Mr. Xiao Feng	8	N/A	1	N/A	1
Mr. Li Zhi Tong	9	N/A	N/A	N/A	N/A
Mr. Meng Fan Zhi	9	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Ms. Hsu Wai Man, Helen	8	2	1	N/A	1
Mr. Wong Tak-jun (resigned on 1 August 2012)	5	1	N/A	N/A	N/A
Mr. Zhu De Miao (resigned on 18 September 2012)	5	2	1	1	1
Mr. Liu Can	9	2	N/A	1	1
Mr. Liu Yong Ping (appointed on 18 September 2012)	2	N/A	N/A	N/A	N/A

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

Appointments, Re-election and Removal of Directors

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

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

Board Committees

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

Audit Committee

The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The written terms of reference of the audit committee are in line with the Corporate Governance Code provisions. The audit committee consists of three members, namely, Ms. Hsu Wai Man, Helen, Mr. Liu Can and Mr. Liu Yong Ping, all of whom are independent non-executive Directors. Ms. Hsu Wai Man, Helen is the chairperson of the audit committee.

The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2012, including the accounting principles and practice adopted by the Group. As disclosed in the annual results announcement of the Company dated 30 April 2013, due to the limited audit evidence available as stated in auditor's report to the financial statements of this annual report, the Directors were unable to obtain sufficient documentary information to ensure the genuineness and completeness of books and records. As a result, the Board of Directors is unable to represent as to the completeness, existence and accuracy of identification and the disclosures of the financial statements for the year ended 31 December 2012.

In accordance with its written terms of reference, the audit committee held 2 meetings during the year ended 31 December 2012 to discuss the auditing, internal control and financial reporting matters of the Company, including review of the annual results of the Group for the year ended 31 December 2011 and interim results of the Group for the six months ended 30 June 2012.

Remuneration Committee

The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review performance based remuneration, and ensure none of the Directors determine their own remuneration. The written terms of reference of the remuneration committee are in line with the Corporate Governance Code provisions.

The remuneration committee consists of three members, namely, Ms. Hsu Wai Man, Helen, Mr. Xiao Feng and Mr. Liu Yong Ping. Ms. Hsu Wai Man, Helen is the chairperson of the remuneration committee.

The remuneration committee held 1 meeting during the year ended 31 December 2012.

Nomination Committee

The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board suitable candidates for directorship after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The written terms of reference of the nomination committee are in line with the Corporate Governance Code provisions. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to, his/her education background, professional experience, experience with the relevant industry and past directorships. The nomination committee consists of three members, namely, Mr. Li Kwok Cheong, Mr. Liu Can and Mr. Liu Yong Ping. Mr. Li Kwok Cheong was the chairman of the nomination committee in 2012.

The nomination committee held 1 meeting during the year ended 31 December 2012.

Independent Board Committee

As disclosed in the announcement of the Company dated 31 January 2011, an independent board committee has been established to conduct an inquiry into the matters and irregularities as disclosed in the announcements dated 31 January 2011 and 2 March 2011 and the 2010 annual report and the 2011 annual report of the Company. The independent board committee comprises Mr. Liu Can, who is also the chairman of the independent board committee, Mr. Xiao Feng and Ms. Hsu Wai Man, Helen.

The independent board committee held 1 meeting during the year ended 31 December 2012.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board, which include (a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

During the year of 2012, the Board reviewed the Company's policies and practices on corporate governance and; reviewed the training and continuous professional development of the Directors and senior management of the Group; reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; reviewed the compliance manual applicable to employees of the Group and the Directors; and reviewed the Company's compliance with the CG Code and disclosure in the corporate governance report.

Company Secretary

The company secretary (the "Company Secretary") of the Company is Tong Wai Kit, Raymond (FCCA, FCPA). Details of the biography of the Company Secretary are set out in the section headed "Directors and Senior Management" of the annual report of which this corporate governance report forms part. The Company Secretary has informed the Company that he took approximately 23 hours of training covering corporate governance and accounting matters during the year ended 31 December 2012. The Company considers that the training of the company secretary is in compliance with the requirements under Rule 3.29 of the Listing Rules.

(B) FINANCIAL REPORTING

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

The responsibilities of Crowe Horwath (HK) CPA Limited, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

External Auditors' Remuneration

The Company engages Crowe Horwath (HK) CPA Limited as its external auditors. Details of the fees paid/payable to Crowe Horwath (HK) CPA Limited for the year ended 31 December 2012 are as follows:

Statutory audit services: RMB3.2 million

(C) INTERNAL CONTROLS

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

As disclosed in the announcement of the Company dated 14 October 2011, the Board has engaged a major accounting firm to assist the Board in conducting reviews of the internal control system of the Company. Such review covered financial, compliance and operational controls as well as risk management mechanisms. Please refer to the announcement of the Company dated 27 April 2012 for a summary of the internal control review.

(D) COMMUNICATIONS WITH SHAREHOLDERS

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

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

(E) SHAREHOLDERS' RIGHTS

How Shareholders can convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Articles, any one or more Shareholder holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company by mail at the Company's correspondence address in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at the Company's correspondence address in Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the chief executive officer.

During the year ended 31 December 2012, there had been no significant change in the Company's constitutional documents.

Independent Auditor's Report

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

To the shareholders of
China Forestry Holdings Co., Ltd.
(Incorporated in Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of China Forestry Holdings Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 45 to 131, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board 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 the 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation – books and records of subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Scope limitation – prepayments for purchase of inventories

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

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

4. Scope limitation – sales and trade receivables

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

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

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

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

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

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

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

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

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

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

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

7. Scope limitation – inventories

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

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

8. Prepayment for forest acquisition

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

9. Scope limitation – interests in subsidiaries

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

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

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we are unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTERS

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

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 30 April 2013

Lam Cheung Shing
Practising Certificate Number P03552

Consolidated Income Statement

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

	Note	**2012 RMB'000**	2011 RMB'000
Turnover	6	**143,952**	392,271
Cost of inventory sold	21	**(159,089)**	(448,220)
Other operating income	7(a)	**23,564**	22,367
Amortisation of insurance premium		**(146)**	(920)
Amortisation of lease prepayments	17	**(9,679)**	(9,019)
Consultancy fees		**(14,884)**	(23,123)
Depreciation	16	**(12,286)**	(4,728)
Foreign exchange loss		**(3,085)**	(37,484)
Other operating expenses	7(b)	**(35,401)**	(78,322)
Rental expenses of properties		**(8,078)**	(6,785)
Staff costs	9	**(45,862)**	(39,487)
Travelling expenses		**(7,256)**	(6,245)
Impairment loss on lease prepayments	17(c)	**(3,876)**	(79,695)
Changes in fair value of plantation assets less costs to sell and other reconciling items	18	**(858,230)**	(2,891,916)
Impairment loss on trade receivables	22(a)	**(7,581)**	(122,699)
Impairment loss on other receivables		**(935)**	(3,800)
Impairment loss on prepayment for forest acquisition	20	**–**	(383,484)
Write-down of inventories	21	**(56,298)**	(120,070)
Impairment loss on prepayment for purchase of inventories	22(b)	**(13,000)**	(125,562)
Gain on a bargain purchase of subsidiaries	38	**1,665**	–
Loss from operations		**(1,066,505)**	(3,966,921)
Finance income		**14,590**	15,480
Finance expenses		**(125,523)**	(177,023)
Net finance costs	8	**(110,933)**	(161,543)
Loss before taxation		**(1,177,438)**	(4,128,464)
Income tax	10	**(9,305)**	(62,193)
Loss for the year		**(1,186,743)**	(4,190,657)
Attributable to:			
Owners of the Company		**(1,180,302)**	(4,190,657)
Non-controlling interests		**(6,441)**	–
		(1,186,743)	(4,190,657)
Loss per share (RMB)			
Basic and diluted	14	**(0.39)**	(1.37)

The notes on pages 52 to 131 form part to of these financial statements.

Consolidated Statement of Comprehensive Income

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

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

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

The notes on 52 to 131 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	16	**145,418**	21,674
Lease prepayments	17	**316,564**	254,910
Plantation assets	18	**2,033,900**	2,898,000
Prepayment for forest acquisition	20	**49,787**	26,222
Prepayment for purchase of leasehold land		**–**	42,873
Deposit for construction of a property	17(b)	**6,212**	–
Deferred tax assets	32	**3,642**	–
Total non-current assets		**2,555,523**	3,243,679
Current assets			
Lease prepayments	17	**10,724**	9,019
Inventories	21	**39,405**	107,135
Trade and other receivables	22	**88,363**	137,343
Loan receivable	23	**50,000**	–
Due from customers on construction contracts	24	**28,804**	–
Financial assets at fair value through profit or loss	25	**66,560**	54,676
Bank deposits with maturity over 3 months	27	**–**	59,858
Pledged bank deposits	28	**10,700**	–
Cash and cash equivalents	28	**395,876**	749,638
Total current assets		**690,432**	1,117,669
Current liabilities			
Trade and other payables	29	**(617,627)**	(614,820)
Interest-bearing borrowings	30	**(70,000)**	–
Current income tax payable		**(71,385)**	(62,122)
Financial guarantee liabilities	39(a)	**(3,000)**	–
Total current liabilities		**(762,012)**	(676,942)
Net current (liabilities)/assets		**(71,580)**	440,727
Total assets less current liabilities		**2,483,943**	3,684,406
Non-current liabilities			
Interest-bearing borrowings	30	**(1,106,989)**	(1,124,833)
Total non-current liabilities		**(1,106,989)**	(1,124,833)
NET ASSETS		**1,376,954**	2,559,573
CAPITAL AND RESERVES	33		
Share capital		**20,797**	20,797
Reserves		**1,313,885**	2,538,776
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,334,682**	2,559,573
Non-controlling interests		**42,272**	–
TOTAL EQUITY		**1,376,954**	2,559,573

Approved and authorised for issue by the board of directors on 30 April 2013:

Li Kwok Cheong
Director

Lin Pu
Director

The notes on pages 52 to 131 form part of these financial statements.

Statement of Financial Position

As at 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Interests in subsidiaries	19	**2,235,103**	2,479,992
Total non-current assets		**2,235,103**	2,479,992
Current assets			
Trade and other receivables	22	**2,102**	5,014
Cash and cash equivalents	28	**997**	3,719
Total current assets		**3,099**	8,733
Current liabilities			
Due to subsidiaries	26	**(977)**	(1,050)
Trade and other payables	29	**(17,481)**	(25,508)
Total current liabilities		**(18,458)**	(26,558)
Net current liabilities		**(15,359)**	(17,825)
Total assets less current liabilities		**2,219,744**	2,462,167
Non-current liabilities			
Interest-bearing borrowings	30	**(1,106,989)**	(1,124,833)
Total non-current liabilities		**(1,106,989)**	(1,124,833)
NET ASSETS		**1,112,755**	1,337,334
CAPITAL AND RESERVES	33		
Share capital		**20,797**	20,797
Reserves		**1,091,958**	1,316,537
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,112,755**	1,337,334

Approved and authorised for issue by the board of directors on 30 April 2013:

Li Kwok Cheong
Director

Lin Pu
Director

The notes on pages 52 to 131 form part of these financial statements.

Consolidated Statement of Changes in Equity

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

		Attributable to owners of the Company								
	Note	Share capital RMB'000 (note 33(c))	Share premium RMB'000 (note 33(e))	Statutory surplus reserve RMB'000 (note 33(e))	Capital reserve RMB'000 (note 33(e))	Exchange reserve RMB'000 (note 33(e))	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011		20,797	1,717,949	170,865	98,656	(19,965)	4,727,893	6,716,195	–	6,716,195
Loss for the year		–	–	–	–	–	(4,190,657)	(4,190,657)	–	(4,190,657)
Exchange differences on translation of financial statements of group entities outside of the PRC		–	–	–	–	25,674	–	25,674	–	25,674
Total other comprehensive income		–	–	–	–	25,674	–	25,674	–	25,674
Total comprehensive loss for the year		–	–	–	–	25,674	(4,190,657)	(4,164,983)	–	(4,164,983)
Transactions with owners										
Equity-settled share-based transactions	31	–	–	–	8,361	–	–	8,361	–	8,361
Transfer to retained profits upon forfeiture of share options	31	–	–	–	(10,678)	–	10,678	–	–	–
		–	–	–	(2,317)	–	10,678	8,361	–	8,361
At 31 December 2011		20,797	1,717,949	170,865	96,339	5,709	547,914	2,559,573	–	2,559,573
At 1 January 2012		**20,797**	**1,717,949**	**170,865**	**96,339**	**5,709**	**547,914**	**2,559,573**	**–**	**2,559,573**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**(1,180,302)**	**(1,180,302)**	**(6,441)**	**(1,186,743)**
Exchange differences on translation of financial statements of group entities outside of the PRC		**–**	**–**	**–**	**–**	**16,298**	**–**	**16,298**	**–**	**16,298**
Total other comprehensive income		**–**	**–**	**–**	**–**	**16,298**	**–**	**16,298**	**–**	**16,298**
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**16,298**	**(1,180,302)**	**(1,164,004)**	**(6,441)**	**(1,170,445)**
Transactions with owners										
Non-controlling interests arising on acquisition of subsidiaries	38	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**48,713**	**48,713**
Equity-settled share-based transactions	31	**–**	**–**	**–**	**2,288**	**–**	**–**	**2,288**	**–**	**2,288**
Transfer to accumulated losses upon forfeiture of share options	31	**–**	**–**	**–**	**(1,181)**	**–**	**1,181**	**–**	**–**	**–**
Dividend approved and paid in respect of prior year	33(b)	**–**	**(63,175)**	**–**	**–**	**–**	**–**	**(63,175)**	**–**	**(63,175)**
		–	**(63,175)**	**–**	**1,107**	**–**	**1,181**	**(60,887)**	**48,713**	**(12,174)**
At 31 December 2012		**20,797**	**1,654,774**	**170,865**	**97,446**	**22,007**	**(631,207)**	**1,334,682**	**42,272**	**1,376,954**

The notes on pages 52 to 131 form part of these financial statements.

Consolidated Statement of Cash Flows

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

	Note	2012 RMB'000	2011 RMB'000
Operating activities			
Loss before taxation		**(1,177,438)**	(4,128,464)
Adjustments for:			
– Amortisation of lease prepayments	17	**9,679**	9,019
– Changes in fair value of plantation assets less costs to sell and other reconciling items	18	**858,230**	2,891,916
– Changes in fair value of derivative financial instruments	8	**–**	9,507
– Fair value loss on financial assets at fair value through profit or loss	7(b)	**8,184**	9,432
– Depreciation	16	**12,286**	4,728
– Impairment loss on lease prepayments	17(c)	**3,876**	79,695
– Reversal of impairment loss on trade receivables	7	**(15,050)**	–
– Reversal of impairment loss on prepayment for purchase of inventories	7	**(3,365)**	–
– Reversal of impairment loss on other receivables	7	**(3,000)**	–
– Write-down of inventories	21	**56,298**	120,070
– Impairment loss on prepayment for forest acquisition	20	**–**	383,484
– Impairment loss on prepayment for purchase of inventories	22(b)	**13,000**	125,562
– Impairment loss on trade receivables	22(a)	**7,581**	122,699
– Impairment loss on other receivables		**935**	3,800
– Loss on disposal of property, plant and equipment	7(b)	**403**	1,528
– Equity-settled share-based payment expenses	31(b)	**2,288**	8,361
– Loss on redemption of interest-bearing borrowings	8 and 30	**–**	23,020
– Gain from a bargain purchase of subsidiaries	38	**(1,665)**	–
– Provision for financial guarantee liabilities	39(a)	**3,000**	–
– Foreign exchange gain		**(3,297)**	(3,284)
– Interest expenses	8	**125,523**	144,398
– Interest income	8	**(14,590)**	(15,480)
		(117,122)	(210,009)
Changes in working capital			
Decrease in inventories		**26,716**	186,665
Decrease in plantation assets of harvested timber transferred to inventories	18	**5,870**	–
Increase in due from customers on construction contracts		**(28,804)**	–
Decrease/(increase) in trade and other receivables		**52,354**	(338,830)
Increase in financial assets at fair value through profit or loss		**(20,745)**	(64,913)
(Decrease)/increase in trade and other payables		**(16,518)**	95,207
Cash used in operations		**(98,249)**	(331,880)
PRC income tax paid		**(42)**	(71)
Net cash used in operating activities		**(98,291)**	(331,951)

CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Note	2012 RMB'000	2011 RMB'000
Investing activities			
Proceeds from disposal of property, plant and equipment		**1,069**	21
Payment for purchase of property, plant and equipment	16	**(9,319)**	(8,804)
Payment for forest acquisition		**(65,717)**	(625,819)
Increase in loan receivable	23	**(50,000)**	–
Increase in pledged bank deposits	28	**(10,700)**	–
Increase in deposit for construction of a property		**(6,212)**	–
Refund from forest acquisition	20	**3,485**	–
Net cash outflow for acquisition of subsidiaries, net of cash acquired	38	**(65,318)**	–
Payment for purchase of leasehold land		**(10,791)**	(42,873)
Decrease/(increase) in bank deposits with maturity over 3 months		**59,858**	(59,858)
Interest received		**14,590**	15,480
Net cash used in investing activities		**(139,055)**	(721,853)
Financing activities			
Payments for repurchase of interest-bearing borrowings	30	**–**	(776,799)
Dividend paid	33(b)	**(63,175)**	–
Proceeds from new interest-bearing borrowings		**120,000**	–
Repayment of interest-bearing borrowings		**(50,000)**	–
Payment of interest expenses		**(120,459)**	(142,066)
Net cash used in financing activities		**(113,634)**	(918,865)
Net decrease in cash and cash equivalents		**(350,980)**	(1,972,669)
Cash and cash equivalents at 1 January	28	**749,638**	2,784,673
Effect of foreign exchange rate change		**(2,782)**	(62,366)
Cash and cash equivalents at 31 December	28	**395,876**	749,638

The notes on pages 52 to 131 form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2012

(Expressed in Renminbi)

1. GENERAL INFORMATION

China Forestry Holdings Company Limited (the "Company") was incorporated and registered as an exempted company with limited liability under the Companies Law of the Cayman Islands and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 December 2009 and have been suspended from trading since 26 January 2011. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Room 2507, 25th Floor, Bank of America Tower, 12 Harcourt road, Hong Kong respectively. The principal activities of the Company are investment holding and those of its principal subsidiaries are forestry management, trading of timber logs and lumbers and provision of wood processing and construction of wood-frame house services in the People's Republic of China (the "PRC").

2. GOING CONCERN

The Group incurred a loss attributable to the owners of the Company of RMB1,180,302,000 (2011: RMB4,190,657,000) and net cash outflow from operating activities of RMB98,291,000 (2011: RMB331,951,000) for the year ended 31 December 2012 and had net current liabilities of RMB71,580,000 (2011: net current assets of RMB440,727,000) and net debt of RMB770,413,000 (2011: RMB315,337,000) as stated in note 33(g) to the consolidated financial statements as at 31 December 2012 respectively. In preparing these consolidated financial statements, the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and the Company and the ability of the Group and the Company to attain profitable and positive cash flows from operations in the immediate and longer term.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries. The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except for per share data. The functional currency of the entities within the Group is Hong Kong dollars ("HK$") except for the subsidiaries established in the PRC for which the functional currency is RMB. As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for the following:

– financial instruments classified as financial assets at fair value through profit or loss (see note 3(e));

– derivative financial instruments (see note 3(u)); and

– plantation assets (see note 3(g)).

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

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would results in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 3(m) or 3(o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in the relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 3(n)).

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

– deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

– liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

– assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

d) Business combinations *(continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

e) Financial asset at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

f) Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and accumulated impairment losses (see note 3(n)).

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives, at the following rates per annum:

Buildings	Over the remaining term of lease
Leasehold improvements	Over the lease terms
Office equipment	3 – 5 years
Plant and machinery	5 – 10 years
Furniture and fittings	5 years
Motor vehicles	10 years

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

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. Gains or losses arising from the disposal or retirement of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and recognised in profit or loss on the date of disposal or retirement.

Construction in progress comprises direct costs of construction during the period of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the relevant class of property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and substantially ready for its intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

g) Plantation assets

Plantation assets comprise of forest crop in the PRC.

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

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

h) Lease prepayments

Lease prepayments represent the land portion allocated from the purchase consideration of forests acquired by the Group and are stated at costs less accumulated impairment and amortisation and amortised over the respective lease terms specified in the forestry ownership certificates on a straight-line basis.

i) Prepayment for purchase of leasehold land

Prepayment for purchase of leasehold land is stated at cost less any impairment losses (see note 3(n)) and represents payments made to acquire land use rights before the issuance of the relevant land use right certificates.

j) Inventories

Inventories represent timber harvested from plantation assets and timber logs and lumbers purchased for trading purpose.

Inventories are measured at the lower of cost and net realisable value. The cost of harvested timber transferred from plantation assets is its fair value less costs to sell at the point of harvest, determined in accordance with the accounting policy for plantation assets (see note 3(g)). The cost of other inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter carried at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 3(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are carried at cost less allowance for impairment of doubtful debts.

l) Construction contracts in progress

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are probable of recovery.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, revenue is recognised over the period of the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the "percentage of completion method" to determine the appropriate amount of revenue and costs to be recognised in a given period. The stage of completion is measured by reference to work performed to date as a percentage of total contract value.

The Group presents as an asset the gross amount due from customers on construction contracts for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within "Trade and other receivables".

The Group presents as a liability the gross amount due to customers on construction contracts for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

m) Trade and other payables

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n) Impairment of assets

i) Impairment of investments in debt and equity securities and receivables

Investments in debt and equity securities and receivables that are carried at cost or amortised cost or as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 3(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 3(n)(ii).

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as 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 (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n) Impairment of assets *(continued)*

i) Impairment of investments in debt and equity securities and receivables *(continued)*

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

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

– property, plant and equipment;

– lease prepayments;

– deposits for construction of property;

– prepayment for forest acquisition; and

– prepayment for purchase of leasehold land.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n) Impairment of assets *(continued)*

ii) Impairment of other assets *(continued)*

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange, the Group is required to prepare an interim financial report in compliance with IAS 34 Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

o) Cash and cash equivalents

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

p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

q) Income tax

i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

q) Income tax *(continued)*

iii) *(continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

r) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

s) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the preparation of the consolidated financial statements, the results and financial position of all group entities are expressed in Renminbi ("RMB"), which is the presentation currency for the consolidated financial statements.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On the disposal of a foreign operation (i.e., a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

t) Employee benefits

i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

t) Employee benefits *(continued)*

ii) Share-based payments *(continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits/accumulated losses).

iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

u) Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and any changes in fair value are recognised immediately in profit or loss.

v) Financial guarantees issued, provisions and contingent liabilities

i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as financial guarantee liabilities. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any financial guarantee liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

v) Financial guarantees issued, provisions and contingent liabilities *(CONTINUED)*

i) Financial guarantees issued *(CONTINUED)*

The amount of the guarantee initially recognised as financial guarantee liabilities is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(v)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in financial guarantee liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

ii) Provisions and contingent liabilities

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

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

w) Related parties

a) A person, or a close member of that person's family, is related to the Group if that person:

- i) has control or joint control over the Group;
- ii) has significant influence over the Group; or
- iii) is a member of the key management personnel of the Group or the Group's parent.

b) An entity is related to the Group if any of the following conditions applies:

- i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii) Both entities are joint ventures of the same third party.
- iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

w) Related parties *(CONTINUED)*

b) *(CONTINUED)*

v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

vi) The entity is controlled or jointly controlled by a person identified in note 3(u)(a).

vii) A person identified in note 3(u)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

x) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the board of directors, being the chief operating decision maker, for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

y) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sale of goods

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

y) Revenue *(CONTINUED)*

(ii) Contract revenue

To the extent that the outcome of the contract can be estimated reliably, revenue from construction contracts is recognised using the percentage of completion method, measured by reference to the percentage of work performed and certified to date as a percentage of total contract value. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are probable of recovery.

iii) Interest income

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.

iv) Government grants

Unconditional government grants relating to the plantation assets are recognised in profit or loss as other income when the grants become receivable.

v) Service income

Service income is recognised when services are rendered.

z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

4. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 43).

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk, natural risk, regulatory and environmental risks and supply and demand risks. The policies on how to mitigate these risks are set out below. The directors manage and monitor these risks to ensure appropriate measures are implemented on a timely and effective manner.

i) Currency risk

The Group is exposed to currency risk primarily through holding of investments and bank deposits and interest-bearing borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. Since Hong Kong dollars is pegged to United States dollars, there is no significant exposure expected on United States dollars transactions conducted by entities which functional currency is Hong Kong dollars.

The Group currently does not have a foreign currency hedging policy but the directors monitor its foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arises.

a) *Exposure to currency risk*

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"). For presentation purposes, the amounts of the exposure are shown in RMB'000, translated using the spot rate at the end of the reporting period.

	The Group		**The Company**	
	2012	2011	**2012**	2011
	United States Dollars RMB'000	United States Dollars RMB'000	**United States Dollars RMB'000**	United States Dollars RMB'000
	Exposure to foreign currencies			
Financial assets at fair value through profit or loss	**66,560**	54,676	**–**	–
Trade and other receivables	**602**	–	**–**	–
Bank deposits with maturity over 3 months	**–**	59,858	**–**	–
Cash and cash equivalents	**174,651**	500,443	**–**	–
Trade and other payables	**(14,739)**	(14,184)	**(14,390)**	(14,184)
Interest-bearing borrowings	**(1,106,989)**	(1,124,833)	**(1,106,989)**	(1,124,833)
Net exposure arising from recognised assets and liabilities	**(879,915)**	(524,040)	**(1,121,379)**	(1,139,017)

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

i) Currency risk *(continued)*

b) *Sensitivity analysis*

The following table details the Group's sensitivity to a reasonably possible change of 5% in the exchange rate of functional currency against USD while all other variables are held constant (excluding the currency risk arising from recognised assets or liabilities denominated in USD recorded by the group entities for which Hong Kong dollars is their functional currency). 5% is the sensitivity rate used when reporting foreign currency risk internally adopted by management and represents management's assessment of a reasonably possible change in foreign exchange rates over the next annual reporting period to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted at the end of each reporting period for a 5% change in foreign currency rates.

	The Group	
	2012	2011
RMB weaken by 5% against USD	**RMB'000**	RMB'000
Decrease in loss after tax for the year	**6,097**	19,348
Decrease in accumulated losses	**6,097**	N/A
Increase in retained profits	**N/A**	19,348

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year. The analysis is performed on the same basis for 2011.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

ii) Interest rate risk

The Group's fair value interest rate risk arises primarily from interest-bearing borrowings carried at fixed rate. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposures should the need arises.

a) *Interest rate profile*

The following table details the interest rate profile of the borrowings at the end of the reporting period:

	The Group			
	Effective interest rates %		RMB'000	
	2012	2011	**2012**	2011
Fixed rate:				
Interest-bearing borrowings				
– senior notes	**10.85**	10.85	**1,106,989**	1,124,833
– short-term bank loans	**5.6-7.22**	N/A	**70,000**	N/A

	The Company			
	Effective interest rates %		RMB'000	
	2012	2011	**2012**	2011
Fixed rate:				
Interest-bearing borrowings				
– senior notes	**10.85**	10.85	**1,106,989**	1,124,833

b) *Sensitivity analysis*

The increase or decrease in interest rate has no impact on the Group's loss after taxation and accumulated losses/retained profits as the interest on the interest-bearing borrowings is at fixed rate. The fair value interest rate risk in relation to the financial assets at fair value through profit or loss is immaterial.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

iii) Credit risk

a) 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, arises from the carrying amounts of trade and other receivables, loan receivable, bank deposits and cash and cash equivalents as carried in the statements of financial position. In order to minimise credit risks, the management has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, management reviews the recoverable amount of each individual trade debt and loan receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced. Trade receivables are due within 10 days to 30 days from the date of delivery of goods. Debtors with balances that are more than 30 days are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group has a certain concentration of credit risk as 33% (2011: 33%) and 63% (2011: 83%) of the total trade related receivables was due from the Group's largest trade debtor and the five largest trade debtors respectively and the amount of loan receivable of RMB50,000,000 was due from a single debtor as at 31 December 2012.

b) In respect of bank balances, the Group has diversified its exposure by depositing into different financial institutions. Substantially all of the Group's bank balances are held in major financial institutions of high credit ratings located in the PRC, and are exposed to low credit risk in this aspect.

c) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group did not have any significant concentration of credit risk.

d) Except for the financial guarantees given by the Group as set out in note 39(a), the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The undiscounted cash flow on financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full utilised guarantee amount if that amount is claimed by the counterparty to the guarantee upon default in repayment by the borrowers.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

iv) Liquidity risk

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group held cash and cash equivalents amounting to approximately RMB395,876,000 at 31 December 2012 (2011: RMB749,638,000).

The following table details the Group's and the Company's remaining contractual maturities at the end of the reporting period for its financial liabilities. The table has been drawn up based on contractual undiscounted cash flows of financial liabilities and based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

The Group

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at the end of the reporting period RMB'000
2012					
Trade and other payables	**135,773**	**–**	**–**	**135,773**	**135,773**
Interest-bearing borrowings	**187,050**	**115,498**	**1,228,380**	**1,530,928**	**1,176,989**
Financial guarantee liabilities	**3,000**	**–**	**–**	**3,000**	**3,000**
	325,823	**115,498**	**1,228,380**	**1,669,701**	**1,315,762**
2011					
Trade and other payables	141,098	–	–	141,098	141,098
Interest-bearing borrowings	117,661	117,661	1,369,048	1,604,370	1,124,833
	258,759	117,661	1,369,048	1,745,468	1,265,931

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

iv) Liquidity risk *(continued)*

The Company

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at the end of the reporting period RMB'000
2012					
Due to subsidiaries	**977**	**–**	**–**	**977**	**977**
Trade and other payables	**17,481**	**–**	**–**	**17,481**	**17,481**
Interest-bearing borrowings	**115,498**	**115,498**	**1,228,380**	**1,459,376**	**1,106,989**
	133,956	**115,498**	**1,228,380**	**1,477,834**	**1,125,447**
2011					
Due to subsidiaries	1,050	–	–	1,050	1,050
Trade and other payables	25,508	–	–	25,508	25,508
Interest-bearing borrowings	117,661	117,661	1,369,048	1,604,370	1,124,833
	144,219	117,661	1,369,048	1,630,928	1,151,391

v) Price risk

The Group is exposed to price risk arising from the listed debt securities classified as financial assets at fair value through profit or loss in the consolidated statement of financial position. The sensitivity analysis has been determined based on the exposure to debt price risk.

At 31 December 2012, if the quoted market prices of the financial assets at fair value through profit or loss had been 10% higher or lower while all other variables were held constant, the Group's loss would decrease or increase by approximately RMB6,656,000 (2011: RMB5,468,000) as a result of changes in fair value of these assets and the Group's equity would increase or decrease by the same amount.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the market price had occurred at the end of the reporting period and had been applied to the exposure to debt prices in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant market price, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant market price or the relevant risk variables over the period until the end of the next annual reporting period. The analysis is performed on the same basis for 2011.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

vi) **Fair value measurements recognised in the statement of financial position**

The following table provides an analysis of financial instruments that are measured at fair value at the end of the reporting period, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in this entirety.

	The Group			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets at fair value through profit or loss				
2012	**66,560**	**–**	**–**	**66,560**
2011	54,676	–	–	54,676

There were no transfers between instruments in Level 1, 2 and Level 3 during the years ended 31 December 2012 and 2011.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

vi) Fair value measurements recognised in the statement of financial position *(continued)*

The carrying amount of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 except as follows:

	The Group and the Company			
	Carrying amount		Fair value	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Financial liabilities				
– Interest-bearing borrowings – senior notes	**1,106,989**	1,124,833	**605,356**	777,179

vii) Natural risk

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 timber logs at adequate levels. The ability to harvest timber logs and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. Weather conditions such as floods, droughts, cyclones, temperature and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting, or otherwise impede the Group's logging operations or the growth of the trees in the forests.

viii) Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at complying with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems and measures in place are adequate to manage those risks. The directors are not aware of any environmental liabilities at 31 December 2012.

ix) Supply and demand risk

The Group is exposed to risks arising from fluctuations in prices and the sales volume of timber logs and lumbers. When possible the Group manages this risk by controlling its harvesting volume according to market conditions. Management performs regular industry trend analysis to ensure the Group's pricing policy is comparable to the market and the projected harvesting volumes are consistent with the expected demand.

5. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

x) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

a) Interest-bearing borrowings

The fair value is estimated as the present value of the contractually determined stream of future cash flows discounted at the current market interest rates for similar financial instruments.

b) Financial assets at fair value through profit or loss

Fair value is based on quoted market price at the end of the reporting period without any deductions for transaction costs.

6. TURNOVER

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

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

7. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income

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

Note:

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

b) Other operating expenses

The other operating expenses include the following:

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

8. NET FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Finance income		
Interest income earned from deposits with banks	**3,071**	11,627
Total interest income on financial assets not at fair value through profit or loss	**3,071**	11,627
Interest income from financial assets at fair value through profit or loss	**11,519**	3,853
	14,590	15,480
Finance expenses		
Interest on senior notes wholly repayable within five years (note 30(c))	**(122,017)**	(144,398)
Interest on short-term bank loans wholly repayable within five years	**(2,809)**	–
Other interest (note 39(a))	**(525)**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**(125,351)**	(144,398)
Loss on redemption of interest-bearing borrowings	**–**	(23,020)
Change in fair value of derivative financial instruments	**–**	(9,507)
Others	**(172)**	(98)
	(125,523)	(177,023)
Net finance costs	**(110,933)**	(161,543)

9. STAFF COSTS

	2012 RMB'000	2011 RMB'000
Salaries, wages and other benefits	**41,401**	28,216
Contributions to defined contribution retirement schemes	**4,190**	2,910
Equity-settled share-based payment expenses (see note 31(b))	**2,288**	8,361
Total (including directors' emoluments)	**47,879**	39,487
Less: staff costs capitalised into work in progress	**(2,017)**	–
	45,862	39,487

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the "Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of approximately 20% (2011: 20%) of the standard wages determined by the relevant authorities during the year ended 31 December 2012. Contributions to the Schemes vest immediately.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the MPF scheme vest immediately.

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

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

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

10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(CONTINUED)*

Income tax in the consolidated income statement represents: *(continued)*

Notes:

a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in these jurisdictions.

b) No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2012 and 2011.

c) Under the PRC tax law, the Enterprise Income Tax rate of the PRC was 25% for the year ended 31 December 2012 (2011: 25%). Pursuant to section 27 of the PRC tax law and section 86 of the Implementation Regulations of the PRC tax law, the entity's income derived from forestry business is exempt from income tax.

The following is a reconciliation between tax expense and accounting loss at the applicable tax rate:

	2012 **RMB'000**	2011 RMB'000
Loss before taxation	**(1,177,438)**	(4,128,464)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**(281,078)**	(1,012,715)
Tax effect of non-taxable income	**(8,842)**	(71,615)
Tax effect of non-deductible expenses	**258,293**	1,134,232
Tax effect of unused tax losses not recognised	**40,894**	12,209
Under-provision in prior years	**–**	9
Others	**38**	73
Actual tax expense	**9,305**	62,193

Under the PRC tax law, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 are subject to the above-mentioned withholding tax. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future. The aggregate amounts of temporary differences associated with undistributed retained earnings and the related deferred tax liabilities which were not recognised because distribution of earnings was not expected in the foreseeable future amounted to RMB765,916,000 (2011: RMB1,337,492,000) and RMB38,296,000 (2011: RMB66,875,000) respectively as at 31 December 2012.

11. DIRECTORS' EMOLUMENTS

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

2012

	Directors' fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000 (note)	Total RMB'000
Chairman							
Li Kwok Cheong	1,200	3,003	–	–	4,203	–	4,203
Executive director							
Lin Pu	960	220	–	–	1,180	219	1,399
Li Han Chun (removed on 17 February 2012)	–	–	–	–	–	–	–
Sub-total	2,160	3,223	–	–	5,383	219	5,602
Non-executive directors							
Li Zhi Tong	300	–	–	–	300	–	300
Xiao Feng	–	–	–	–	–	–	–
Meng Fan Zhi	300	–	–	–	300	–	300
Sub-total	600	–	–	–	600	–	600
Independent non-executive directors							
Liu Can	300	–	–	–	300	–	300
Wong Tak-jun (resigned on 1 August 2012)	190	–	–	–	190	–	190
Zhu De Miao (resigned on 18 September 2012)	214	–	–	–	214	–	214
Hsu Wai Man, Helen	325	–	–	–	325	–	325
Liu Yongping (appointed on 18 September 2012)	93	–	–	–	93	–	93
Sub-total	1,122	–	–	–	1,122	–	1,122
Total	3,882	3,223	–	–	7,105	219	7,324

11. DIRECTORS' EMOLUMENTS *(CONTINUED)*

2011

	Directors' fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000 (note)	Total RMB'000
Chairman							
Li Kwok Cheong	1,200	3,004	–	–	4,204	–	4,204
Executive director							
Lin Pu (appointed on 1 January 2011)	960	195	–	–	1,155	462	1,617
Li Han Chun (removed on 17 February 2012)	–	157	–	–	157	729	886
Sub-total	2,160	3,356	–	–	5,516	1,191	6,707
Non-executive directors							
Li Zhi Tong	300	–	–	–	300	–	300
Xiao Feng	75	–	–	–	75	–	75
Meng Fan Zhi (appointed on 1 January 2011)	300	–	–	–	300	–	300
Sub-total	675	–	–	–	675	–	675
Independent non-executive directors							
Liu Can	300	–	–	–	300	–	300
Wong Tak-jun (resigned on 1 August 2012)	332	–	–	–	332	–	332
Zhu De Miao (appointed on 1 January 2011 and resigned on 18 September 2012)	300	–	–	–	300	–	300
Hsu Wai Man, Helen (appointed on 5 July 2011)	163	–	–	–	163	–	163
Wang Wei Ying (resigned on 1 January 2011)	–	–	–	–	–	–	–
Sub-total	1,095	–	–	–	1,095	–	1,095
Total	3,930	3,356	–	–	7,286	1,191	8,477

11. DIRECTORS' EMOLUMENTS *(CONTINUED)*

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2012 and 2011. During the year ended 31 December 2011, Mr. Xiao Feng has waived his emoluments in the amount of RMB225,000 and has agreed to waive all his emoluments in the future. Other than Mr. Xiao Feng, no director waived or agreed to waive any emoluments during the years ended 31 December 2012 and 2011.

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 3(t)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 31 to these consolidated financial statements.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include three (2011: two) directors for the year ended 31 December 2012, whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other two (2011: three) individuals are as follows:

	2012 **RMB'000**	2011 RMB'000
Basic salaries, allowances and benefits in kind	**2,999**	4,273
Discretionary bonuses	**–**	66
Share-based payments	**1,171**	2,465
Retirement scheme contributions	**22**	19
	4,192	6,823

The emoluments of two individuals (2011: three) with highest emoluments are within the following bands:

	2012	2011
HK$Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**–**	1
HK$2,500,001 to HK$3,000,000	**2**	–
HK$4,000,001 to HK$4,500,000	**–**	1

13. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of RMB141,585,000 (2011: RMB211,081,000) which has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

Basic loss per share

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

Diluted loss per share

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

15. SEGMENT INFORMATION

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

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

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

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

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

15. SEGMENT INFORMATION *(CONTINUED)*

Segment revenue and results

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

For the year ended 31 December 2012

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

15. SEGMENT INFORMATION *(CONTINUED)*

Segment revenue and results *(continued)*

For the year ended 31 December 2011

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment loss represents the loss from each segment without allocation of unallocated finance income, unallocated interest expenses, unallocated other operating income, unallocated corporate expenses, loss on fair value changes in derivative financial instruments, fair value loss on financial assets at fair value through profit or loss and loss on redemption of interest-bearing borrowings. This is the measure reported to CODM of the Company for the purposes of resources allocation and performance assessment.

15. SEGMENT INFORMATION *(CONTINUED)*

Segment assets and liabilities

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

Segment assets

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

Segment liabilities

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

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

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

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

15. SEGMENT INFORMATION *(CONTINUED)*

Other segment information

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

15. SEGMENT INFORMATION *(CONTINUED)*

Other segment information *(continued)*

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

Geographical information

The Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, the PRC, which is the Group's principal place of business and operations. Therefore, no analysis by geographical region is presented.

Information about major customers

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

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

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Office equipment RMB'000	Furniture and fittings RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
Cost								
At 1 January 2011	891	13,601	6,346	2,151	–	–	–	22,989
Exchange adjustments	(3)	(475)	–	(1)	–	–	–	(479)
Additions	1,238	1,111	3,141	2,874	440	–	–	8,804
Disposals	(106)	(355)	–	(1,531)	–	–	–	(1,992)
At 31 December 2011	2,020	13,882	9,487	3,493	440	–	–	29,322
At 1 January 2012	2,020	13,882	9,487	3,493	440	–	–	29,322
Exchange adjustments	(2)	(224)	–	(1)	–	–	–	(227)
Additions								
– acquisition of subsidiaries	276	–	760	–	72,320	56,750	1,644	131,750
– others	1,326	288	2,430	390	58	–	4,827	9,319
Transfer upon completion	–	–	–	–	3,121	–	(3,121)	–
Disposals	(174)	(33)	(1,398)	(385)	–	–	–	(1,990)
At 31 December 2012	3,446	13,913	11,279	3,497	75,939	56,750	3,350	168,174
Accumulated depreciation								
At 1 January 2011	204	2,644	619	29	–	–	–	3,496
Exchange adjustments	(2)	(131)	–	–	–	–	–	(133)
Charge for the year	314	2,719	1,081	554	60	–	–	4,728
Disposals	(40)	(110)	–	(293)	–	–	–	(443)
At 31 December 2011	476	5,122	1,700	290	60	–	–	7,648
At 1 January 2012	476	5,122	1,700	290	60	–	–	7,648
Exchange adjustments	(2)	(120)	–	–	–	–	–	(122)
Charge for the year	870	2,782	1,662	312	6,864	3,258	–	15,748
Disposals	(118)	(12)	(266)	(122)	–	–	–	(518)
At 31 December 2012	1,226	7,772	3,096	480	6,924	3,258	–	22,756
Carrying amount								
At 31 December 2012	2,220	6,141	8,183	3,017	69,015	53,492	3,350	145,418
At 31 December 2011	1,544	8,760	7,787	3,203	380	–	–	21,674

The analysis of the carrying amounts of the buildings is as follows:

	2012 RMB'000	2011 RMB'000
Buildings		
Outside Hong Kong – medium leases	**53,492**	–

The analysis of depreciation charged to profit or loss is as follows:

	2012 RMB'000	2011 RMB'000
Depreciation	**15,748**	4,728
Less: depreciation capitalised into work in progress	**(3,462)**	–
	12,286	4,728

17. LEASE PREPAYMENTS

		The Group			
		2012			
	Note	Forestry land RMB'000 (Note a)	Industrial land RMB'000 (Note b)	Total RMB'000	2011 Forestry land RMB'000
At 1 January		263,929	–	263,929	342,163
Additions					
– acquisition of subsidiaries		–	23,250	23,250	–
– others		–	10,791	10,791	10,480
Reclassified from prepayment for purchase of leasehold land		–	42,873	42,873	–
Amortisation for the year		(9,240)	(439)	(9,679)	(9,019)
Impairment	(c)	–	(3,876)	(3,876)	(79,695)
At 31 December		254,689	72,599	327,288	263,929
Analysed for reporting purpose					
Current assets		9,240	1,484	10,724	9,019
Non-current assets		245,449	71,115	316,564	254,910
		254,689	72,599	327,288	263,929
Location					
Yunnan Province, the PRC	(d)	201,406	49,700	251,106	209,477
Manzhouli, Inner Mongolia, the PRC		–	22,899	22,899	–
Sichuan Province, the PRC	(g)	53,283	–	53,283	54,452
		254,689	72,599	327,288	263,929
Held outside Hong Kong					
Medium-term lease		207,507	72,599	280,106	212,107
Long-term lease		47,182	–	47,182	51,822
		254,689	72,599	327,288	263,929

17. LEASE PREPAYMENTS *(CONTINUED)*

Notes:

(a) This represents the amount allocated as land portion from the consideration in respect of the forests acquired by the Group in the PRC. Usage of the land is regulated by the implementation regulations of PRC forest laws issued by the State Council of the PRC. The Group engaged a professional valuer to conduct a professional valuation on the lease prepayments in respect of the forestry land as at 31 December 2012. The professional valuation of the forestry land is higher than its carrying amount, therefore, no impairment loss on the forestry land lease prepayments is necessary.

(b) This represents the land held for own use in wood processing and construction in the PRC. Pursuant to the commitment of project construction ("項目建設承諾書") signed with the local bureaus of land and resources, the Group shall commence construction in the industrial land of RMB49,700,000 in Yunnan within six months from 28 November 2012 and complete the construction within two years. Otherwise, penalty of RMB10,000 per day will be deducted from the deposit for construction of a property of RMB6,212,000. The Group shall return the land to the local bureaus of land and resources without compensation if the construction is not commenced within two years from 28 November 2012.

(c) Impairment loss on lease prepayments

	Note	**2012 RMB'000**	2011 RMB'000
Forestry land			
– Yunnan	(d)	**–**	73,610
– Guizhou	(e)	**–**	6,085
		–	79,695
Industrial land			
– Yunnan	(f)	**3,876**	–
		3,876	79,695

(d) **Year ended 31 December 2012**
As disclosed in note 18(b) to the consolidated financial statements, the Group obtained forestry ownership certificate for approximately 76,000 hectares of forests in Yunnan as at 31 December 2012. The directors consider that the Group is able to obtain the forestry ownership certificates for the remaining approximately 45,000 hectares of forests with carrying amount of RMB81,874,000 as at 31 December 2012.

Year ended 31 December 2011
The lease prepayments relating to Yunnan represents the amount allocated as the land portion from the total consideration as estimated by the directors for forests acquired in 2010 and the carrying amount brought forward from 2009. As disclosed in note 18(b), the Group held approximately 203,000 hectares of forests in Yunnan as at 31 December 2010 for which forestry ownership certificates have been issued for approximately 53,000 hectares of forests during the year ended 31 December 2011. Together with the forestry ownership certificates for approximately 14,000 hectares of forests discovered, the Group held forestry ownership certificates for approximately 67,000 hectares of forests in Yunan. The lease prepayment with a carrying amount of RMB73,610,000 in respect of the remaining approximately 96,000 hectares of forests for which there are uncertainties in obtaining the forestry ownership certificates were fully impaired. Owing to the loss of books and records in previous year, the directors are unable to determine the value of the land portion of the forests acquired in 2010. During the year ended 31 December 2010, the directors have applied their judgment to make a best estimate based on historical data to allocate the value of the land portion from the total consideration of forests. Given the loss of books and records, unreliability of records found and the absence of key personnel, the Group is in the process of rebuilding its forestry database, but has not obtained adequate information regarding the lease period of its forests. The directors therefore believe that it is not practicable, if not impossible, to ascertain the amortisation or the completeness and accuracy of the lease prepayments of the Group for 2010.

(e) As disclosed in note 18 (c), the directors believe the forestry ownership certificates for 2,000 hectares of forests in Guizhou are falsified copies and consider that it is appropriate to fully impair the related lease prepayments in profit or loss.

(f) The Group had engaged an independent professional valuer to assess the value of the industrial land. The impairment was due to the recoverable amount of the industrial land being lower than the carrying amount.

(g) As at 31 December 2012 and 2011, the Group obtained all the forestry ownership certificates for approximately 33,000 hectares of forests in Sichuan, the PRC.

18. PLANTATION ASSETS

		The Group	
	Note	**2012 RMB'000**	2011 RMB'000
At 1 January		**2,898,000**	5,747,000
Increase due to purchases	(a), (d)	**–**	300,000
Harvested timber transferred to inventories		**(5,870)**	–
Changes in fair value less costs to sell and other reconciling items	(d)	**(858,230)**	(3,149,000)
At 31 December		**2,033,900**	2,898,000

		Area		Amount	
Location of plantation assets	Note	**2012 Hectares**	2011 Hectares	**2012 RMB'000**	2011 RMB'000
Sichuan Province, the PRC	(a)	**33,000**	33,000	**745,600**	1,142,000
Yunnan Province, the PRC	(b)	**121,000**	121,000	**1,288,300**	1,756,000
Guizhou Province, the PRC	(c)	**–**	–	**–**	–
		154,000	154,000	**2,033,900**	2,898,000

Note:

(a) As at 31 December 2012 and 2011, the Group obtained all the forestry ownership certificates for 33,000 hectares of forests in Sichuan. The Group conducted various activities including working on a program for assessing the species mix and forest volume of the forests with Chandler Fraser Keating Limited ("CFK") in Sichuan. CFK is a privately-owned specialist forest consulting firm headquartered in New Zealand. CFK provided an unqualified opinion as to the fair value less costs to sell on the plantation assets located in Sichuan. As at 31 December 2012, the plantation assets in Sichuan represent standing timber acquired, planted and managed by the Group and comprise approximately 33,000 hectares of tree plantations with age 20 years or older. The details of the key assumptions used in the valuation are set out in note (e) below.

(b) During the years ended 31 December 2012 and 2011, the Group conducted activities similar to those conducted in Sichuan, which included a program for assessing the species mix and forest volume of the forests in Yunnan in order to rebuild proper records for its plantation assets. However, the areas in Yunnan are significantly larger and require additional time and resources to conduct a detailed measurement and for detailing the stocked areas, species composition and other information for these plantation assets. As at the date of approval of these consolidated financial statements, the activities are still in progress. As a result, CFK has had to make some subjective judgements for the valuation of its plantation assets. The actual areas composition and yield of the forests are likely to be different from those subjective judgements. As a result, CFK was unable to issue an unqualified valuation on the plantation assets in Yunnan as at 31 December 2012 and 2011. The actual value of the plantation assets in Yunnan may be higher or lower than the value derived by CFK. The details of the key assumptions used in the valuation are set out in note (e) below.

18. PLANTATION ASSETS *(CONTINUED)*

Notes: *(continued)*

(b) *(continued)*

Year ended 31 December 2012

As at 31 December 2012, the Group obtained forestry ownership certificates for approximately 76,000 hectares of forests in Yunnan. As compared to 2011, the Group obtained additional forestry ownership certificates for approximately 9,000 hectares of forests in Yunnan since the date of approval of the consolidated financial statements for the year ended 31 December 2011. The directors understand that the local forest bureaus are processing the applications and verifying the information and documents submitted by the Group for re-issuance of the forestry ownership certificates for the remaining approximately 45,000 (2011:54,000) hectares of forests with carrying amount of RMB811,000,000 as at 31 December 2012. Yunnan forest bureaus directed the Company to rely on the confirmations obtained for last year and did not issue new confirmations to confirm the ownership of the remaining approximately 45,000 hectares of forests as at 31 December 2012. The directors consider that the Group is able to obtain the forestry ownership certificates for these forests in the foreseeable future.

During the year ended 31 December 2012, the Group harvested approximately 65,481 cubic meters of wood, which had fair value less costs to sell of RMB5,870,000 at the date of harvest.

Year ended 31 December 2011

According to the confirmations obtained from the local forest bureaus in Yunnan and the PRC legal opinion dated 29 April, 2011 (the "First Legal Opinion"), the Group held approximately 203,000 hectares of forests in Yunnan as at 31 December 2010. Up to the date of approval of the consolidated financial statements for 2011, the Group obtained forestry ownership certificates for approximately 53,000 hectares of forests from the respective Yunnan forest bureaus. The Group discovered additional forestry ownership certificates for approximately 14,000 hectares of forests for other areas not included in the aforesaid 203,000 hectares in Yunnan. As such, the Group obtained forestry ownership certificates for a total of approximately 67,000 hectares of forests in Yunnan. The Group have requested the relevant local forest bureaus to issue confirmations regarding the forest ownerships of the Group. However, certain local forest bureaus were not willing to issue the confirmation. In this regard, the PRC legal opinion for 2011 only covered the area for which confirmations were obtained from the local forest bureaus. According to the confirmations obtained from the local forest bureaus and the PRC legal opinion dated 25 April 2012 (the "Second Legal Opinion"), the directors understand that the local forest bureaus are processing the applications and verifying the information and documents submitted by the Group for the re-issuance of forestry ownership certificates for the remaining approximately 54,000 hectares of forests. The directors consider that the Group is able to obtain the forestry ownership certificates in the foreseeable future. Consequently, in view of the uncertainty of obtaining the forestry ownership certificates, the directors considered that the carrying amount of plantation assets of approximately RMB2,200,000,000 and lease prepayments of RMB73,610,000 in respect of the remaining approximately 96,000 hectares of forests in Yunnan for which no confirmation was received from the respective Yunnan forest bureaus nor were forestry ownership certificates obtained were charged to profit or loss as changes in fair value of plantation assets less costs to sell and other reconciling items and impairment respectively.

(c) During the year ended 31 December 2010, the Group entered into agreements with Guizhou Jingping Changsheng Xinglv Forest Co., Ltd and Guizhou Changsheng Green Resource Development Co., Ltd (collectively referred to "Guizhou Changsheng") to purchase approximately 49,000 hectares of forests in Guizhou for a total consideration of RMB828,039,000. The Group paid RMB413,911,000 to Guizhou Changsheng as prepayment for forest acquisition. Up to 31 December 2010, Guizhou Changsheng provided forestry ownership certificates for approximately 2,000 hectares of forests to the Group. Notwithstanding the loss of forestry ownership certificates in 2010, the Group obtained direct confirmation from the local forest bureau in Guizhou to confirm the ownership. Therefore, the Group recognized plantation assets for approximately 2,000 hectares of forests in Guizhou with fair value less costs to sell of RMB34,000,000 as at 31 December 2010. During the year ended 31 December 2011, the Group submitted application for re-issuance of forestry ownership certificates for the 2,000 hectares of forests in Guizhou. However, the officials from the local forest bureau informed that the 2,000 hectares of forests were owned by another third party. According to the further investigation conducted so far, the Board believes that the forestry ownership certificates for the 2,000 hectares of forests are falsified copies. The Group engaged a PRC lawyer to take legal actions against Guizhou Changsheng to recover the total payments of RMB413,911,000 (including RMB24,342,000 and RMB6,085,000 transferred from prepayment for forest acquisition to plantation assets and lease prepayments respectively in 2010, totalling RMB30,427,000) made to Guizhou Changsheng. In April 2012, the Group reported the case to the PRC police. In view of the above and the uncertainty in recovering the amount from Guizhou Changsheng, the Board considered that it is appropriate to charge the plantation assets with a carrying amount of RMB34,000,000 to changes in fair value of plantation assets less costs to sell and other reconciling items.

18. PLANTATION ASSETS *(CONTINUED)*

Notes: *(continued)*

(d) **Year ended 31 December 2012**

Changes in fair value of plantation assets less costs to sell in the consolidated income statement for the year ended 31 December 2012 were mainly due to the decrease in selling price of timber logs and the increase in logging costs and change in harvesting plan as compared to the estimations made in 2011.

Year ended 31 December 2011

Changes in fair value of plantation assets less costs to sell and other reconciling items in the consolidated income statement for the year ended 31 December 2011 included the fair value gain of RMB257,084,000 upon initial acquisition of the plantation assets; the plantation assets relating to the additional forestry ownership certificates discovered for approximately 14,000 hectares of forests in Yunnan; carrying amount of RMB2,200,000,000 of plantation assets in respect of approximately 96,000 hectares of forests in Yunnan for which no confirmation was obtained from local forest bureaus; and the carrying amount of RMB34,000,000 of plantation assets in respect of approximately 2,000 hectares of forests in Guizhou as stated in note 18(c) above.

(e) The Group's plantation assets in the PRC were independently valued by CFK based on the information available to the directors pertaining to the extent and nature of the Group's plantation assets (see note 18(a) and (b) above). In view of the non-availability of official or published market prices for trees in the PRC, CFK has applied the net present value approach whereby projected future net cash flows, based on an assessment of current timber log prices, were discounted at the rate of 13% (2011: 13%) for plantation assets for the year applied to pre-tax cash flows to provide a current market value of the plantation assets.

The principal valuation methodology and assumptions adopted are as follows:

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

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

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

– 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; and

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

19. INTERESTS IN SUBSIDIARIES

	The Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investments at cost	**–**	–
Amounts due from subsidiaries	**2,235,103**	2,479,992
	2,235,103	2,479,992

The amounts due from subsidiaries are unsecured, interest-free and not expected to be recovered within one year. In the opinion of the directors, the amounts due from subsidiaries are considered as quasi-investments in the subsidiaries and therefore were classified as non-current assets.

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

Name of company	Place of incorporation and operation	Paid-up capital	Attributable equity interest indirectly held by the Company	Principal activities
Kunming Ultra Big Forestry Resources Development Co., Ltd.* ("Kunming Ultra Big")	The PRC	USD90,000,000 (2011: USD90,000,000)	100%	Forestry management and trading of timber logs and lumbers
Chengdu Yishang Forestry Resource Development Co., Ltd.* ("Chengdu Yishang")	The PRC	USD49,000,000 (2011: USD49,000,000)	100%	Forestry management, trading of timber logs and provision of construction of wood-frame houses services
Guizhou Wosen Forestry Development Company Limited* ("Guizhou Wosen")	The PRC	USD60,000,000 (2011: USD90,000,000)	100%	Forestry management, processing, sale, and trading of timber logs and lumbers
Manzhouli Yishang Forest Resource Development Co., Ltd.* ("Manzhouli Yishang")	The PRC	RMB30,000,000 (2011: RMB30,000,000)	100%	Processing, sale and trading of timber logs and lumbers
Manzhouli Triple Success Co., Ltd.* ("Triple Success")	The PRC	USD12,900,000	70%	Provision of wood processing services for timber logs
Yunnan Zhaoneng Investment Co., Ltd.* ("Yunnan Zhaoneng")	The PRC	USD50,000,000 (2011: USD50,000,000)	100%	Trading of timber logs and lumbers

* These entities were established as wholly-foreign-owned enterprises in the PRC.

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

(b) Kunming Ultra Big is the Group's key operating subsidiary. During the audit process in respect of the financial year ended 31 December 2010, irregularities have been reported by the predecessor auditor. As a result, an independent board committee was formed to conduct an investigation. The investigation was completed in April 2012. Based on the findings of the investigation, the directors understood that Kunming Ultra Big maintained more than one set of accounting records prior to 2011 and all the sales in 2010 were conducted on a cash basis and most of the sales proceeds have not been deposited into the bank accounts of Kunming Ultra Big. The former chief executive officer of the Company Mr. Li Han Chun ("Mr. Li") and his team used the proceeds from cash sales to purchase timber logs from individual farmers and to pay operating costs and expenses relating to harvesting activities and, since the second half of 2010, Mr. Li and his team started to purchase timber logs in Northeast China. All these transactions were recorded in daily cash books which were concealed from the board of directors of the Company. Since certain members of the accounting and finance team and resource management department had not reported for work since mid-February 2011 and since then were not contactable, the current management were unable to locate the books and records and related supporting documents maintained at the local office of Kunming Ultra Big prior to 2011. The directors reconstructed as much as possible the accounting records of Kunming Ultra Big for the year ended 31 December 2010 by applying their best estimates and judgement on the information available to them and prepared the financial statements of Kunming Ultra Big. However, it is uncertain whether there were any transactions, cash or otherwise, authorised or undertaken by Mr. Li during the period from 1 January 2011 to 14 February 2011 (date of removal of Mr. Li as the chief executive officer). Accordingly, the directors have not been able to obtain sufficient documentary information to satisfy themselves regarding the completeness and accuracy of the books and records of Kunming Ultra Big brought forward from previous years which might affect the consolidated financial statements for the years ended 31 December 2012 and 2011.

(c) Information of Manzhouli Yishang

During the year ended 31 December 2011, Manzhouli Yishang, a wholly-owned subsidiary, conducted log and lumber trading activities on a cash basis. The personal bank accounts of the general manager and certain officers of Manzhouli Yishang were utilized to collect sales proceeds from customers and make payments to suppliers and transfers were made periodically to Manzhouli Yishang's bank accounts. However, discrepancies were identified between the accounting records of Manzhouli Yishang and the personal bank accounts of the general manager and certain officers. Discrepancies were also identified between the PRC audited financial statements of Manzhouli Yishang which were submitted to the PRC tax authority and the financial information as consolidated in the consolidated financial statements for the year ended 31 December 2011.

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

(c) Information of Manzhouli Yishang *(continued)*

In particular, the Board were unable to reconcile the amount of loss for the year ended 31 December 2011 as reported in Manzhouli Yishang's income statement of RMB39,432,000 as included in the consolidated financial statements for the year ended 31 December 2011 with that submitted to the PRC tax authority of RMB562,000.

The following table summaries the financial information of Manzhouli Yishang included in these consolidated financial statements:

Statement of financial position as at 31 December 2011

	RMB'000
Non-current assets	
Property, plant and equipment	1,169
Current assets	
Due from fellow subsidiaries	9,466
Inventories	22,550
Trade and other receivables	
– Prepayment for purchase of inventories	27,502
– Deposits and other receivables	1,590
	29,092
Cash and cash equivalents	664
Total current assets	61,772
Current liabilities	
Trade and other payables	
– Trade payables	5,489
– Other payables and accruals	612
– Value added tax and other tax levies payables	3,274
– Advances from customers	518
	9,893
Current income tax payable	4,671
Due to fellow subsidiaries	28,538*
Due to immediate holding company	29,912*
Total current liabilities	73,014
Net current liabilities	(11,242)
Net liabilities	(10,073)

* Eliminated upon preparation of the consolidated financial statements.

19. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

(c) Information of Manzhouli Yishang *(continued)*

Income statement for the year ended 31 December 2011

	RMB'000
Turnover	136,579
Cost of inventory sold	(137,862)
Other operating income	91
Write-down of inventories	(24,896)
Depreciation	(139)
Other operating expenses	(3,415)
Rental expenses	(12)
Staff costs	(1,237)
Travelling expenses	(82)
Impairment loss on other receivables	(3,800)
Loss from operations	(34,773)
Finance income	18
Finance expenses	(6)
Net finance costs	12
Loss before taxation	(34,761)
Income tax	(4,671)
Loss for the year	(39,432)

20. PREPAYMENT FOR FOREST ACQUISITION

		The Group	
		2012	2011
	Note	**RMB'000**	RMB'000
At 1 January		**26,222**	383,484
Additions	(a)	**27,050**	26,222
Refunded during the year	(a)	**(3,485)**	–
Impairment	(b)	**–**	(383,484)
At 31 December		**49,787**	26,222

Notes:

(a) Guizhou Wosen, a wholly owned subsidiary of the Group entered into a number of agreements to purchase forests in Guizhou Province, the PRC for a total consideration of RMB23,400,000 and RMB184,159,000 during the years ended 31 December 2012 and 2011 respectively. The Group paid RMB27,050,000 and RMB26,222,000 in 2012 and 2011 as prepayments for the acquisition of the forests under the agreements. During the year, the Group obtained forestry ownership certificates for a total of 8,794 hectares of forests and started to carry out physical inspection and assessing the species mix and forest volume of the forests. However, the Group was not satisfied with the quality of the trees during the physical inspection and the Group negotiated with the sellers for a price reduction and refund. The Group returned 815 hectares of forests to the sellers and obtained a refund of the prepayments of RMB3,485,000. Subsequent to 31 December 2012, the Group obtained a further refund of RMB302,000. At present, the Group is still in the process of assessing the species mix and forest volume and quality of the forests and therefore, no professional valuation on these forests was made. In the opinion of the directors, the Group is able to return the forestry ownership certificates to the sellers and recover the prepayments if the quality of the forests is not acceptable upon completion of the physical inspection.

(b) During the year ended 31 December 2010, the Group entered into agreements with Guizhou Jingping Changsheng Xinglv Forest Co., Ltd. and Guizhou Changsheng Green Resource Development Co., Ltd. (collectively "Guizhou Changsheng") which were controlled by Mr. Zhou Xiaolin, the Former General Manager of Guizhou Wosen, for the acquisitions of approximately 49,000 hectares of forests for a total consideration of RMB828,039,000. The Group paid an aggregate amount of RMB413,911,000 as prepayment for forest acquisition under the agreements during the year ended 31 December 2010 of which RMB24,342,000 and RMB6,085,000 were classified as plantation assets and lease prepayments respectively upon receipt of the relevant forestry ownership certificates in 2010. Since then, Guizhou Changsheng was unable to provide any forestry ownership certificates for the remaining prepayment of RMB383,484,000 to the Group. However, as detailed in note 18(c) the forestry ownership certificates provided by Guizhou Changsheng were found to be falsified and it was unlikely that the acquisition would be completed. The Group engaged a PRC lawyer to take legal actions and reported the case to the PRC police. The directors considered that it was appropriate to make full impairment on the prepayment for forest acquisition.

21. INVENTORIES

	The Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**3,613**	125
Work in progress	**8,793**	–
Timber logs and lumbers	**324,297**	348,010
Less: Write-down of inventories (note (a) and (b))	**(297,298)**	(241,000)
Total	**39,405**	107,135

An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Cost of inventory sold	**159,089**	448,220
Write-down of inventories	**65,410**	120,070
Reversal of write-down of inventories	**(9,112)**	–
	56,298	120,070
	215,387	568,290

Notes:

(a) **Year ended 31 December 2012**

There were inventories with a total carrying amount of RMB13,110,000 (2011: 76,160,000) which were purchased in cash under the supervision of the former chief executive officer and executive director, Mr. Li Han Chun in 2010. According to the findings of the investigation as more fully described in note 19(b), the Board understood that there were insufficient documents to support the Group's titles and ownership. During the physical stock-take in January 2013, the Group was unable to gain access to the inventories with a total carrying amount of RMB49,350,000 which were brought forward from previous year and placed with a former customer of the Group. In previous years, the Group sold goods to the former customer. However, the former customer failed to make settlements and the Group had made impairment of the trade receivables in 2011. In 2012, the Group took actions and chased the former customer for repayment. The former customer refused to make any repayment. Although the former customer cooperated to arrange for the stock-taking in late April 2013, the results of stock-taking are still not satisfactory and the Group is still chasing the former customer for repayment and return of the inventories through its in-house lawyer. The directors are confident that the Group has sufficient grounds to get back the inventories. However, the quality of these inventories may have deteriorated since the physical stock-take in January 2012. Therefore, the directors considered that it is appropriate to write down the carrying amount of these inventories by RMB41,350,000 to RMB8,000,000 in these consolidated financial statements.

The Group together with the external professional valuer performed a physical stock-take and inspection of timber logs and lumbers in other locations in January 2013. The balance of the write down of inventories of RMB14,948,000 was determined based on the net realisable with reference to the professional valuation.

During the year ended 31 December 2012, the Group sold out the inventories to customers which write-down has been recognised in previous years. As a result, a reversal of write-down of inventories of RMB9,112,000 had been recognised.

(b) **Year ended 31 December 2011**

The Group together with the external professional valuer performed a physical stock-take and inspection in January 2012. The write down of inventories was determined based on the net realisable value with reference to the professional valuation.

22. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
	Note	**2012** **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Trade and bills receivables	(a)	**138,103**	142,199	**–**	–
Less: allowance for doubtful debts	(a)	**(115,230)**	(122,699)	**–**	–
		22,873	19,500	**–**	–
Other receivables		**4,947**	13,002	**50**	990
Loans and receivables		**27,820**	32,502	**50**	990
Prepayments for purchase of inventories	(b)	**36,813**	74,980	**–**	–
Prepayment for lumbering		**10,232**	18,411	**–**	–
Value added tax receivables		**7,218**	1,929	**–**	–
Other prepayments and deposits		**6,280**	9,521	**2,052**	4,024
		88,363	137,343	**2,102**	5,014

All of the trade and other receivables are expected to be recovered within one year.

(a) Trade and bills receivables

(i) Ageing analysis

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

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

Trade and bills receivable are due within 10 days to 30 days from the date of delivery of goods. Further details on the Group's credit policy are set out in note 5(iii).

22. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Trade and bills receivables *(continued)*

(ii) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**122,699**	–
Impairment loss recognised	**7,581**	122,699
Reversal of impairment loss recognised	**(15,050)**	–
At 31 December	**115,230**	122,699

At 31 December 2012, the Group's trade and bills receivables of RMB115,230,000 (2011: RMB122,699,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties or default in payments and management assessed that the receivables are not expected to be recovered. Consequently, specific allowances for impairment loss of RMB7,581,000 (2011: RMB122,699,000) were recognised in the profit or loss.

(iii) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**8,883**	19,500
Less than 1 month past due	**11,682**	–
Over 1 month past due	**2,308**	–
	22,873	19,500

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(b) Prepayment for purchase of inventories

In January 2011, a subsidiary entered into three purchase contracts with three entities for the purchase of timber logs. Based on the purchase contracts, the Group made payments of RMB171,000,000 to the three entities as prepayments for the purchase of timber logs between 24 January 2011 to 2 March 2011. Subsequent to the payments, the Group received logs amounting to RMB47,895,000 (including value-added tax). According to the purchase contracts, the three entities shall refund the balance of prepayments to the Group for which no delivery of logs are taken place upon the expiry of the contracts in June and July 2011. However, no refund was received by the Group up to the approval of the consolidated financial statements for the year ended 31 December 2011. The Board have assessed the recoverability of these balances and decided to impair an amount of RMB90,362,000 which were considered not recoverable as at 31 December 2011. The general manager of the subsidiary who executed the purchase contracts resigned and left the subsidiary. The directors were considering taking appropriate actions including possible legal proceedings against these entities to recover the outstanding balances together with compensation. In addition, the Board also considered the recoverability of the prepayment for purchase of inventories of RMB35,200,000 brought forward from the prior year and concluded that the amount would not be recovered. Therefore, the amount of RMB35,200,000 was also impaired in the profit or loss of 2011.

During the year ended 31 December 2012, an impairment loss on prepayment for purchase of inventories of RMB13,000,000 was recognised in the profit or loss, as the amount was long outstanding and the directors are of the opinion that the recoverable amount of the balance was less than its carrying amount.

23. LOAN RECEIVABLE

On 6 December 2012, 北京呈獻文化藝術有限公司 ("呈獻") entered into an agreement (the "呈獻" agreement) with 鴻洋國際保理(天津)有限公司 ("鴻洋") pursuant to which 鴻洋 lent RMB50,000,000 to 呈獻 for a period of one year from 6 December 2012 at an interest rate of 6.5% per annum. 呈獻 entered into a mortgage agreement (the "Mortgage Agreement") to pledge its accounts receivables and various paintings to 鴻洋 for the loan of RMB50,000,000. The legal representative of 呈獻 is 蘇倩倩 who is the sister-in-law of Mr. Li Kwok Cheong, the chairman and a director of the Company. 蘇倩倩 is a connected person of the Group under the definition of the Listing Rules. However, 蘇倩倩 does not hold any shares in or exercise any control or significant influence in 呈獻. Taken into account the opinion of the legal advisor of the Company, the directors considered that 呈獻 is not a related party of the Group.

On 7 December 2012, the Group entered in an agreement with 鴻洋 whereby the Group lent RMB50,000,000 to 鴻洋 for one year commencing from 7 December 2012. The loan is secured by the accounts receivables and various paintings under the Mortgage Agreement held by 鴻洋. 鴻洋 assigned to the Group the rights and income to the loan under the 呈獻 agreement and guaranteed the performance and repayment of 呈獻. The loan carries interest at 6.5% per annum and is repayable on 6 December 2013. According to a legal opinion issued by a PRC lawyer, the Group is able to demand 鴻洋 and 呈獻 for repayment of the loan and enforce the securities under the Mortgage Agreement. At present, the Group takes possession of most of the paintings and therefore the directors considered that sufficient securities are held by the Group and no impairment loss on the loan receivable is considered necessary.

24. CONSTRUCTION CONTRACT IN PROGRESS

	The Group	
	2012 **RMB'000**	2011 RMB'000
Contract costs incurred plus attributable profits less foreseeable losses to date	**29,424**	–
Progress billings to date	**(620)**	–
Due from customers on construction contracts	**28,804**	–

The contract revenue of RMB29,424,000 was recognised for the year ended 31 December 2012.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2012 **RMB'000**	2011 RMB'000
Debt securities, listed in Singapore	**66,560**	54,676
Market value of listed debt securities	**66,560**	54,676

The Group holds an aggregate principal amount of USD19,690,000 (2011: USD13,190,000) of its 10.25% Senior Notes due 2015. The details of the 10.25% Senior Notes due 2015 are set out in note 30(c).

26. DUE TO SUBSIDIARIES

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

27. BANK DEPOSITS WITH MATURITY OVER 3 MONTHS

At 31 December 2011, the bank deposits were denominated in United States Dollars ("USD") and deposited with a bank in the PRC. The bank deposits bear an effective interest rate of 3.8% per annum.

28. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Pledged bank deposits	**10,700**	–	**–**	–
Cash at bank and in hand	**395,876**	749,638	**997**	3,719
	406,576	749,638	**997**	3,719
Less: pledged bank deposits	**(10,700)**	–		
Cash and cash equivalents in the consolidated statement of financial position and statement of cash flows	**395,876**	749,638		

The Group's cash and cash equivalents include cash at bank and in hand of RMB360,382,000 held in the PRC as at 31 December 2012 (2011: RMB525,119,000). The conversion of RMB denominated balance into foreign currencies and the remittance of such foreign-currency denominated bank balances and cash out of the PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

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

29. TRADE AND OTHER PAYABLES

		The Group		The Company	
	Note	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Trade payables	(a)	**10,851**	5,839	**–**	–
Payable for forest acquisitions	(b)	**56,534**	95,201	**–**	–
Other payables and accrued expenses		**31,888**	39,475	**17,481**	24,906
Amount due to the Chairman of the Company	(c)	**–**	583	**–**	602
Consideration payable on acquisition of subsidiaries	38	**28,000**	–	**–**	–
Due to a non-controlling interest	(f)	**8,500**	–	**–**	–
Financial liabilities measured at amortised cost		**135,773**	141,098	**17,481**	25,508
Value added tax and other tax levies payable	(d)	**466,008**	461,046	**–**	–
Advances from customers	(e)	**15,846**	12,676	**–**	–
		617,627	614,820	**17,481**	25,508

29. TRADE AND OTHER PAYABLES *(CONTINUED)*

All the trade payables, payable for forest acquisitions, other payables and accrued expenses, consideration payable on acquisition of subsidiaries, amount due to a non-controlling interest, advances from customers, amount due to the Chairman of the Company and value added tax and other tax levies payable are expected to be settled within one year or repayable on demand.

(a) Trade payables

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

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

(b) Payable for forest acquisitions

Payable for forest acquisitions represents considerations to be settled for the acquisition of forests in the PRC. Due to the lost of certain books and records of Kunming Ultra Big, the balances of RMB641,454,000 as at 31 December 2010 were estimated by the directors by reference to the forests held by the Group and the estimated market price. During the years ended 31 December 2012 and 2011, the Group made aggregate payments of RMB12,519,000 and RMB598,653,000 to settle part of the estimated outstanding considerations payable. The remaining outstanding considerations payable of RMB30,282,000 (2011: RMB42,801,000) as at 31 December 2012 and 2011 were included in the total payable for forest acquisitions stated above. In the absence of relevant books and records, the directors were unable to make representation as to the completeness, existence and accuracy of the balance of payable for forest acquisitions brought forward from previous years and as at 31 December 2012 and 2011.

(c) Amount due to the Chairman of the Company

As at 31 December 2011, the amount due to the Chairman of the Company represents payment of listing expense made on behalf of the Company.

(d) Value added tax and other tax levies payable

During the year ended 31 December 2010, according to the findings of the investigation as more fully described in note 19(b), the directors identified that the former management has not fully settled or provided for the value added tax payable on the sales of timber logs in the previous years. The Group has taken proper steps to remedy this situation, by communicating with the relevant tax bureaus and recognising the value added tax payable which were prepared to settle voluntarily.

(e) The advances from customers included the amount of RMB8,000,000 as disclosed in note 39(a).

(f) The amount is unsecured, interest free and repayable on demand.

30. INTEREST-BEARING BORROWINGS

		The Group		The Company	
	Note	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Current					
Short-term bank loans, secured	(a)	**40,000**	–	**–**	–
Short-term bank loans, unsecured	(b)	**30,000**	–	**–**	–
Non-current					
Senior notes, secured	(c)	**1,106,989**	1,124,833	**1,106,989**	1,124,833
Total		**1,176,989**	1,124,833	**1,106,989**	1,124,833

The interest-bearing borrowings were repayable as follows:

Within 1 year	**70,000**	**–**	**–**	–
More than 2 years but not more than 5 years	**1,106,989**	1,124,833	**1,106,989**	1,124,833
Total	**1,176,989**	1,124,833	**1,106,989**	1,124,833

(a) Short-term bank loans, secured

As at 31 December 2012, the short-term bank loans of RMB40,000,000 were secured by the Group's planation assets and lease prepayments of RMB47,271,000 and RMB6,552,000 respectively. The short-term bank loans of RMB30,000,000 are repayable in March 2013 and the balance of RMB10,000,000 are repayable in May 2013. The bank loans are bearing interest at 6.6% and 7.216% per annum. On 12 March 2013, the Group repaid the bank loans of RMB30,000,000 which were due for repayment in March 2013.

(b) Short-term bank loans, unsecured

As at 31 December 2012, the short-term bank loans of RMB30,000,000 were guaranteed by the corporate guarantee from a subsidiary of the Group. The short-term bank loans of RMB20,000,000 and RMB10,000,000 are repayable in January 2013 and May 2013, and bearing interest at 5.6% and 6.6% per annum respectively. In January 2013, the short-term bank loans of RMB20,000,000 were fully repaid.

30. INTEREST-BEARING BORROWINGS *(CONTINUED)*

(c) Senior notes

	The Group and the Company			
	2012	2011		
	Secured 10.25% senior notes due 2015 RMB'000	Secured 7.75% senior notes due 2015 RMB'000	Secured 10.25% senior notes due 2015 RMB'000	Total RMB'000
At 1 January	**1,124,833**	1,948,862	–	1,948,862
Exchange adjustments	**(20,717)**	(69,349)	(3,044)	(72,393)
Transfer	**–**	(1,131,075)	1,131,075	–
Interests charged	**122,017**	97,525	46,873	144,398
Interests payable	**(116,953)**	(92,184)	(45,074)	(137,258)
Loss on redemption	**–**	23,020	–	23,020
Repurchase	**–**	(776,799)	–	(776,799)
Exchange difference recognised in profit or loss	**(2,191)**	–	(4,997)	(4,997)
At 31 December	**1,106,989**	–	1,124,833	1,124,833
Repayable				
More than two years but not more than five years	**1,106,989**	–	1,124,833	1,124,833

On 17 November 2010, the Company executed an indenture (the "Indenture") for the issuance of senior notes in an aggregate principal amount of US$300,000,000 ("7.75% Senior Notes due 2015"). The 7.75% Senior Notes are listed on the Singapore Exchange Securities Trading Limited. The 7.75% Senior Notes carry interest at the rate of 7.75% per annum, payable semi-annually on 17 May and 17 November in arrears, commencing 17 May 2011.

(Expressed in Renminbi)

30. INTEREST-BEARING BORROWINGS *(CONTINUED)*

(c) Senior notes *(continued)*

At any time on or after 17 November 2013, the Company may redeem the 7.75% Senior Notes due 2015 in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on 17 November of any year set forth below:

Period	Redemption Price
2013	103.875%
2014	101.9375%

At any time prior to 17 November 2013, the Company may at its option redeem the 7.75% Senior Notes due 2015, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 7.75% Senior Notes due 2015 plus an applicable premium as of, and accrued and unpaid interest, if any, to, the redemption date.

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

The 7.75% Senior Notes due 2015 contain a liability component and an early redemption option:

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

The interest charged for the period from 17 November 2010 to 14 August 2011 is calculated by applying an effective interest rate of approximately 8.24% per annum to the liability component of the 7.75% Senior Notes due 2015.

(ii) Early redemption options are regarded as embedded derivatives not closely related to the host contract. According to the valuation, the above early redemption options had no value as at 31 December 2012 and 2011.

On 15 August 2011, the Company redeemed at a consideration of US$123,747,000 (equivalent to RMB791,608,000), the 7.75% Senior Notes due 2015 with a principal amount of US$120,000,000 plus accrued and unpaid interest and consent payment through a tender offer ("Offer"). The carrying amount of the 7.75% Senior Notes due 2015 plus accrued and unpaid interest was US$120,190,000 (equivalent to RMB768,588,000) at the date of redemption. A loss on repurchase of US$3,557,000 (equivalent to RMB23,020,000) was recognised in profit or loss.

In conjunction with the Offer, the Company obtained consents from holders of the 7.75% Senior Notes due 2015 to make certain amendments of the Indenture and the 7.75% Senior Notes due 2015 (the "Amendments") and a waiver of any failure by the Company to comply with any provision of the Indenture or any actual or potential default or event of default. The Amendments include an increase in the interest rate from 7.75% per annum to 10.25% per annum and effective interest rate from 8.24% to 10.85% and the amount of indebtedness that the Company could incur from US$10 million to US$210 million. The 10.25% Senior Notes is repayable on 17 November 2015.

(Expressed in Renminbi)

30. INTEREST-BEARING BORROWINGS *(CONTINUED)*

The Senior Notes are secured by the shares of the Company's certain subsidiaries incorporated in Hong Kong and BVI, which act as the intermediate holding companies for all the Group's PRC subsidiaries except for Triple Success and are subject to the fulfilment of certain financial and non-financial covenants, as commonly found in lending arrangements in high yield senior notes. If the Group were to breach any of the covenants, the principal and accrued and unpaid interest of the Senior Notes would become payable on demand. The directors consider that none of the covenants had been breached during the years ended 31 December 2012 and 2011.

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

On 5 November 2009, the Group established a share option scheme that entitles key management personnel and senior employees to purchase shares in the Company. On 7 September 2010, the Group granted options to purchase 42,750,000 shares to directors, senior management and key employees at a consideration of HK$1 per individual. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

The option shall lapse on the date the grantee ceases to be an employee of the Group for whatever reason. Since February 2011, fifteen out of twenty-three senior management personnel entitled to purchase shares under the share option scheme of the Company have not reported for work or have been suspended from duty. The effect of the forfeiture of share options of those employees have been reflected in the consolidated financial statements.

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

Grant Date	Number of Shares issuable under options granted	Vesting Date	Contractual life of options
Options granted to directors:			
– On 7 September 2010	2,666,400	One year from the date of grant	10 years
– On 7 September 2010	2,666,400	Two years from the date of grant	10 years
– On 7 September 2010	2,667,200	Three years from the date of grant	10 years
Options granted to employees:			
– On 7 September 2010	11,582,175	One year from the date of grant	10 years
– On 7 September 2010	11,582,175	Two years from the date of grant	10 years
– On 7 September 2010	11,585,650	Three years from the date of grant	10 years
Total shares issuable under options granted	42,750,000		

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

31. EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(CONTINUED)*

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

	2012		2011	
	Weighted average exercise price HK$	**Number of shares issuable under options granted '000**	Weighted average exercise price HK$	Number of shares issuable under options granted '000
Outstanding at the beginning of the year	**3.23**	**8,500**	3.23	42,750
Forfeited during the year	**3.23**	**(1,250)**	3.23	(34,250)
Outstanding at the end of the year	**3.23**	**7,250**	3.23	8,500
Exercisable at the end of the year	**–**	**–**	–	–

The options outstanding at 31 December 2012 had an exercise price of HK$3.23 (2011: HK$3.23) per share and a weighted average remaining contractual life of approximately 7.7 years (2011: 8.7 years). The charge for the equity-settled share-based transaction during the year ended 31 December 2012 is RMB2,288,000 (2011: RMB8,361,000).

c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	2010
Fair value of share options and assumptions	
Fair value at measurement date	HK$63,328,000
Share price	HK$3.17
Exercise price	HK$3.23
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	74%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	10 years
Expected dividends	1.85%
Risk-free interest rate (based on 10 year Hong Kong Exchange Fund Notes)	1.979%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

32 DEFERRED TAXATION

a) Deferred tax assets recognised:

	The Group Fair value adjustment on property, plant and equipment and lease prepayments RMB'000
Deferred tax arising from:	
Acquisition of subsidiaries	3,642
At 31 December 2012	3,642

b) Deferred tax not recognised:

At the end of the reporting period, the Group has estimated tax losses of RMB261,992,000 (2011: RMB51,424,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for these companies. The tax losses may be carried forward for five years for PRC enterprise income tax purpose. The tax losses do not expire for Hong Kong Profits Tax under the current tax legislation.

33. CAPITAL, RESERVES AND DIVIDENDS

a) Movements in components of equity

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

The Company

	Note	Share capital RMB'000 (note (c))	Share premium RMB'000 (note (e)(i))	Capital reserve RMB'000 (note (e)(iii))	Exchange reserve RMB'000 (note (e)(iv))	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2011		20,797	1,717,949	98,656	(68,583)	(171,812)	1,597,007
Loss for the year		–	–	–	–	(211,081)	(211,081)
Exchange differences on translation of financial statements		–	–	–	(56,953)	–	(56,953)
Total other comprehensive loss		–	–	–	(56,953)	–	(56,953)
Total comprehensive loss for the year		–	–	–	(56,953)	(211,081)	(268,034)
Transaction with owners							
Equity-settled share-based transactions	31	–	–	8,361	–	–	8,361
Transfer to accumulated losses upon forfeiture of share options		–	–	(10,678)	–	10,678	–
		–	–	(2,317)	–	10,678	8,361
At 31 December 2011		20,797	1,717,949	96,339	(125,536)	(372,215)	1,337,334
At 1 January 2012		**20,797**	**1,717,949**	**96,339**	**(125,536)**	**(372,215)**	**1,337,334**
Loss for the year		**–**	**–**	**–**	**–**	**(141,585)**	**(141,585)**
Exchange differences on translation of financial statements		**–**	**–**	**–**	**(22,107)**	**–**	**(22,107)**
Total other comprehensive loss		**–**	**–**	**–**	**(22,107)**	**–**	**(22,107)**
Total comprehensive loss for the year		**–**	**–**	**–**	**(22,107)**	**(141,585)**	**(163,692)**
Transaction with owners							
Equity-settled share-based transactions	31	**–**	**–**	**2,288**	**–**	**–**	**2,288**
Transfer to accumulated losses upon forfeiture of share options		**–**	**–**	**(1,181)**	**–**	**1,181**	**–**
Dividend approved and paid in respect of prior year		**–**	**(63,175)**	**–**	**–**	**–**	**(63,175)**
		–	**(63,175)**	**1,107**	**–**	**1,181**	**(60,887)**
At 31 December 2012		**20,797**	**1,654,774**	**97,446**	**(147,643)**	**(512,619)**	**1,112,755**

33. CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

b) Dividends

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

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

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

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

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

c) Authorised and issued share capital

	2012			2011		
	Number of ordinary shares '000	**Amount USD'000**	**RMB equivalent RMB'000**	Number of ordinary shares '000	Amount USD'000	RMB equivalent RMB'000
Authorised:						
Ordinary shares of USD0.001 each at 1 January and 31 December	**100,000,000**	**100,000**	**679,640**	100,000,000	100,000	679,640
Ordinary shares, issued and fully paid:						
Shares of USD0.001 each at 1 January and 31 December	**3,060,452**	**3,060**	**20,797**	3,060,452	3,060	20,797

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

(Expressed in Renminbi)

33. CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

d) Terms of unexpired and unexercised share options at the end of the reporting period

Exercise period	Exercise price	**2012 Number of shares issuable under options granted**	2011 Number of shares issuable under options granted
7 September 2011 to 6 September 2020	HK$3.23	**2,416,667**	2,833,333
7 September 2012 to 6 September 2020	HK$3.23	**2,416,667**	2,833,333
7 September 2013 to 6 September 2020	HK$3.23	**2,416,666**	2,833,334
		7,250,000	8,500,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 31 to the consolidated financial statements.

e) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory surplus reserve

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

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

(iii) Capital reserve

Capital reserve represents the portion of the grant date fair value of unexercised share options granted to directors and employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(t)(ii), and the difference between the fair value of shares transferred to and the present value of consideration payable by an ex-director.

(iv) Exchange reserve

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

33. CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

f) Distributable reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to owners of the Company, including the share premium was RMB1,142,155,000 (2011: RMB1,345,734,000).

g) Capital management

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

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

The Group monitors its capital structure on the basis of a net debt to equity ratio. For this purpose the Group defines net debt as total debt which includes interest-bearing borrowings less bank deposits and cash and cash equivalents. Equity comprises all components of equity.

During the year ended 31 December 2012, the Group's strategy was to maintain the net debt to equity ratio as low as feasible.

The Group's net debt to equity ratio at the reporting date was as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current and current liabilities				
Interest-bearing borrowings	**1,176,989**	1,124,833	**1,106,989**	1,124,833
Total debt	**1,176,989**	1,124,833	**1,106,989**	1,124,833
Less:				
Cash and cash equivalents	**(395,876)**	(749,638)	**(997)**	(3,719)
Pledged bank deposits	**(10,700)**	–	**–**	–
Bank deposits with maturity over 3 months	**–**	(59,858)	**–**	–
Net debt	**770,413**	315,337	**1,105,992**	1,121,114
Total equity	**1,376,954**	2,559,573	**1,112,755**	1,337,334
Net debt to equity ratio	**56.0%**	12.3%	**99.4%**	83.8%

33. CAPITAL, RESERVES AND DIVIDENDS *(CONTINUED)*

g) Capital management *(continued)*

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to owners, issue new shares or sell assets to reduce the debt.

The Group is subject to externally imposed capital requirements under lending arrangements in interest-bearing borrowings as disclosed in note 30.

34. MATERIAL RELATED PARTY TRANSACTIONS

a) Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	**10,104**	11,468
Post-employment benefits	**22**	19
Equity-settled share-based payment expenses	**1,390**	2,927
	11,516	14,414

b) Financing arrangements

	The Group As at 31 December	
	2012	2011
	RMB'000	RMB'000
Advance from a director	**–**	583

Note:

At 31 December 2011, the advance from a director is unsecured, interest-free and repayable on demand, and is included in "trade and other payables" (note 29).

34. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

c) Other related party transactions

	Note	**2012 RMB'000**	2011 RMB'000
Rental expenses paid to a related party	(i)	**90**	120
Consultancy fee paid to a related company	(iii)	**–**	319

Notes:

(i) The Group paid rental expenses to Mr. Xiao Hui Bo ("Mr. Xiao"), a senior management member of a subsidiary, for leasing of an office from Mr. Xiao.

(ii) During the year ended 31 December 2011, the Group paid rental expenses amounting to RMB264,000 on behalf of Beijing Century Wall Culture & Arts Co., Ltd. ("Beijing Century"). Mr. Li Kwok Cheong, the Chairman of board of directors, and his wife hold 100% equity interest in Beijing Century. Such receivable was fully settled by Beijing Century before 31 December 2011.

(iii) During the year ended 31 December 2011, the Group paid consultancy fee to a related company namely 西安京企文化傳播有限公司 ("西安京企"). Beijing Century holds 51% equity interest in 西安京企.

35. COMMITMENTS

a) Capital commitments outstanding at 31 December 2012 not provided for in the consolidated financial statement are as follows:

		The Group	
	Note	**2012 RMB'000**	2011 RMB'000
Contracted but not provided for:			
– acquisition of forests		**98,425**	157,937
Authorised but not contracted for:			
– construction of a property	17(b)	**138,350**	–
		236,775	157,937

The above capital commitments represented outstanding commitments in respect of contracts signed in 2012 and 2011 and did not include outstanding commitments, if any, for contracts signed in previous years as the directors considered that all the payables for forest acquisition have been accounted for.

35. COMMITMENTS *(CONTINUED)*

b) At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**6,569**	8,237
After 1 year but within 5 years	**4,149**	10,781
After 5 years	**348**	1,044
	11,066	20,062

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

36. PLEDGE OF ASSETS

a) As disclosed in note 30 to the consolidated financial statements, the Company has pledged its shares held in certain subsidiaries (the "Subsidiaries"), having a total carrying amount of approximately RMB2,235,103,000 (2011: RMB2,479,992,000) to secure the issue of senior notes of RMB1,106,989,000 (2011: RMB1,124,833,000). The Subsidiaries are investment holding companies holding all the shares of other subsidiaries except for Triple Success of the Group in the PRC.

b) The Group has pledged the Group's plantation assets and lease prepayments of RMB47,271,000 and RMB6,552,000 respectively to secure the short-term bank loans of RMB40,000,000 (2011: Nil).

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

The pledged bank deposits will be released upon the settlement of relevant bank loans.

37. ACCOUNTING JUDGEMENTS AND ESTIMATES

a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

i) Going concern

As mentioned in note 2 to the consolidated financial statements, the directors are satisfied that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. As the directors are confident that the Group will be able to continue in operational existence in the foreseeable future, the consolidated financial statements have been prepared on a going concern basis. If the going concern basis is not appropriate, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. Such adjustments may have a significant consequential effect on the loss for the year and net assets of the Group.

ii) Fair value of plantation assets

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

The Group's forestry business is subject to the usual agricultural hazards from fire, weather and insects. Forces of nature such as temperature and rainfall may also affect harvest efficiency. Management considers adequate preventive measures are in place and the relevant legislation under forestry laws in the PRC will assist in minimising exposure. Nevertheless, to the extent that unanticipated factors affecting harvestable agricultural produce may result in remeasurement or losses in future accounting periods.

iii) Useful lives of property, plant and equipment

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

37. ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

a) Critical judgements in applying the Group's accounting policies *(continued)*

iv) Income taxes

Determining income tax provisions involves judgement of the future tax treatment of certain transactions and the interpretation of tax rules. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

b) Key sources of estimation uncertainty

The following 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.

i) Impairment of property, plant and equipment and lease prepayments

The Group assesses whether there are any indicators of impairment for all property, plant and equipment and lease prepayments at the end of each reporting period. Property, plant and equipment and lease prepayments are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar asset or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of property, plant and equipment and lease prepayments as at 31 December 2012 was RMB145,418,000 (2011: RMB21,674,000) and RMB327,288,000 (2011: RMB263,929,000), respectively.

ii) Estimated provision for impairment of trade and other receivables and loan receivable

The Group makes provision for impairment of trade and other receivables and loan receivable based on an assessment of the recoverability of trade and other receivables and loan receivable. Provisions are applied to trade and other receivables where there is objective evidence that indicates the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates based on the credit history of the customers or debtors and the current market conditions. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and impairment allowance in the period in which such estimate has been changed.

The carrying amount of trade and other receivables and loan receivable as at 31 December 2012 was RMB27,820,000 (2011: RMB32,502,000) (note 22) and RMB50,000,000 (2011: Nil) (note 23) respectively.

37. ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

b) Key sources of estimation uncertainty *(continued)*

(iii) Estimated net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated costs necessary to make the sale. The Group writes down slow-moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Write-down of inventories will be made where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of the inventories and write down of inventories in the period in which such estimate has been changed.

The carrying amount of inventories as at 31 December 2012 was RMB39,405,000 (2011: RMB107,135,000) (note 21).

(iv) Taxation, value added tax and other taxes

Determining tax provisions, including value added tax and other taxes provision and duties, involves judgement, including the interpretation and application of tax and other legislation, on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account changes in tax legislations. When the final outcome of these transactions is different from the amounts that were initially recorded, such differences will impact provisions in the year in which such determination is made.

According to the findings of the investigation as more fully described in note 19(b), the Group has identified that the former management has not fully settled or provided the value added tax on sales of timber logs for the previous year. As disclosed in note 29(d), the Group has taken proper steps to remedy this situation, by communicating with the relevant tax bureaus and recognising the value added tax payable which were prepared to settle voluntarily.

The carrying amounts of current income tax payable and value added tax and other tax levies payable as at 31 December 2012 were RMB71,385,000 (2011: RMB62,122,000) and RMB466,008,000 (2011: RMB461,046,000) respectively.

(v) Estimation of percentage of completion and foreseeable losses of construction work

The Group recognises its contract revenue according to the percentage of work performed to date of the individual contract of construction work as a percentage of total contract value. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Management regularly reviews the progress of the contracts and the corresponding costs of the contract revenue.

37. ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

b) Key sources of estimation uncertainty *(continued)*

The Group's management estimates the amount of foreseeable losses of construction work based on the budgets prepared. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise sub-contracting charges and costs of materials are prepared by management on the basis of quotations provided by the major contractors, suppliers and vendors involved, and the experience of the management. Management conducts periodic review on the management budgets by reviewing the actual amounts incurred. Items that will be subject to significant variances and impact the amount of provision of foreseeable losses of construction contracts include the changes in estimations or the actual costs incurred for materials, staff costs, the amount of variation orders and claims as compared to management's budget.

The carrying amount of due from customers on construction contracts as at 31 December 2012 was RMB28,804,000 (2011: Nil) (note 24).

38. BUSINESS COMBINATION

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

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

* If the completion cannot take place before 31 March 2012, the payment date would be deferred to a date mutually agreed between the Seller and Creation Power. The prepayment shall be refunded if the acquisition is not completed or the Agreement is terminated. As the transaction was completed on 27 April 2012, the Seller and Creation Power agreed that the third payment and the last payment dates were changed to 180 days and 360 days from 27 April 2012 respectively. Up to the date of approval of these consolidated financial statements, the Group is in discussion with the Vendor for final payment.

38. BUSINESS COMBINATION *(CONTINUED)*

Identifiable assets and liabilities assumed

	RMB'000
Non-current assets	
Property, plant and equipment	131,750
Lease prepayments	23,250
Deferred tax assets	3,642
Current assets	
Work in progress	11,822
Trade and other receivables	
– Trade receivables	17
– Prepayments	1,610
	1,627
Tax recoverable	1,923
Cash and cash equivalents	18,682
Current liabilities	
Trade and other payables	
– Trade payables	(10,816)*
– Other payables and accruals	(1,383)*
– Advances from customers	(6,957)
	(19,156)
Loan from Creation Power	(11,162)
Total net assets identified	162,378

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

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

38. BUSINESS COMBINATION *(CONTINUED)*

Gain on a bargain purchase	RMB'000
Consideration transferred	112,000
Plus: non-controlling interests (30%)	48,713
Less: fair value of identifiable net assets acquired	(162,378)
Gain on a bargain purchase	(1,665)

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

Total consideration satisfied by:

	RMB'000
Cash consideration paid	84,000
Consideration payable for acquisition of subsidiaries (note 29)	28,000
	112,000

Net cash outflow on acquisition of subsidiaries:

	RMB'000
Cash consideration	84,000
Cash and cash equivalents in subsidiaries acquired	(18,682)
Net cash outflow on acquisition of subsidiaries	65,318

Non-controlling interests

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

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

The revenue included in the consolidated income statement since 27 April 2012 contributed by Buildrich Group was RMB19,551,000. Buildrich Group incurred loss of RMB12,820,000 over the same period.

Had the acquisition been completed on 1 January 2012, the Group's total revenue would have been approximately RMB153,109,000 and loss for the year would have been approximately RMB1,187,702,000.

The above pro forma information on the Group's revenue and results is for illustrative purposes only and is not necessarily an indication of the revenue and results of operation of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is it intended to be a projection of future results.

39. CONTINGENT LIABILITIES

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

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

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

40. EVENTS AFTER THE END OF THE REPORTING PERIOD

a) On 18 March 2013, the Group returned RMB8,000,000 to the Customer as mentioned in note 39(a) to these consolidated financial statements.

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

41. SEASONALITY OF OPERATIONS

The Group's forest operations in Yunnan and Sichuan, the PRC, are subject to weather conditions during the rainy season ranging roughly from July to September each year. Forest logging activities in the PRC are substantially scaled down or stopped completely in some areas. Log prices usually increase during the rainy season due to diminished supplies. This affects many sawmill operators that have to stock up logs and tie up significant working capital, but benefit forest owners who can plan ahead to reserve stock pile prior to the start of the rainy season. The Group incorporates this seasonality in its forest management plan to avoid supply shortage as well as to take advantage of seasonal price differentials in logs.

42. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2012, the directors consider the immediate and ultimate parent of the Group to be Kingfly Capital Limited, which is incorporated in the British Virgin Islands and controlled by the Chairman of the Company, Mr. Li Kwok Cheong. This entity does not produce financial statements available for public use.

(Expressed in Renminbi)

43. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issuance of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these consolidated financial statements. These included the following which may be relevant to the Group's operations and consolidated financial statements.

	Effective for accounting periods beginning on or after
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 11, Joint arrangements	1 January 2013
IFRS 12, Disclosure of interests in other entities	1 January 2013
IFRS 13, Fair value measurement	1 January 2013
IAS 27, Separate financial statements (2011)	1 January 2013
IAS 28, Investments in associates and joint ventures (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013
IFRIC 20, Stripping costs in the production phase of a surface mine	1 January 2013
Amendments to IFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards – Government loans	1 January 2013
Annual Improvements to IFRSs 2009-2011 Cycle	1 January 2013
Amendments to IFRS 10, Consolidated financial statements, IFRS 11, Joint arrangements and IFRS 12, Disclosure of interests in other entities – Transition guidance	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities	1 January 2014
Amendments to IAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
IFRS 9, Financial instruments	1 January 2015
Amendments to IFRS 9, Financial instruments and IFRS 7 Financial instruments: Disclosures – Mandatory effective date and transition disclosures	1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Five-year Summary

(Expressed in Renminbi in thousand)

	2012 RMB'000	2011 RMB'000 (As reported)	2010 RMB'000 (As reported)	2009 RMB'000 (As reported)	2008 RMB'000 (As reported)
Operating results					
Turnover	**143,952**	392,271	1,064,025	793,693	544,948
Result from operating activities	**(1,066,505)**	(3,966,921)	(1,576,535)	589,522	5,884,148
Suspense account	**–**	–	(1,116,400)	–	–
Net finance (costs)/income	**(110,933)**	(161,543)	(18,885)	(77,892)	(2,373)
(Loss)/profit before taxation	**(1,177,438)**	(4,128,464)	(2,711,820)	511,630	5,881,775
Income tax expense	**(9,305)**	(62,193)	–	–	–
(Loss)/profit for the year	**(1,186,743)**	(4,190,657)	(2,711,820)	511,630	5,881,775
Attributable to:					
Owners of the Company	**(1,180,302)**	(4,190,657)	(2,711,820)	511,630	5,881,775
Non-controlling interests	**(6,441)**	–	–	–	–
	(1,186,743)	4,190,657	(2,711,820)	511,630	5,881,775
Assets and liabilities					
Non-current assets	**2,555,523**	3,243,679	6,492,140	8,007,226	7,925,777
Net current assets/(liabilities)	**(71,580)**	440,727	2,172,917	1,587,233	(169,374)
Total assets less current liabilities	**2,483,943**	3,684,406	8,665,057	9,594,459	7,756,403
Non-current liabilities	**(1,106,989)**	(1,124,833)	(1,948,862)	–	(321,053)
Net assets	**1,376,954**	2,559,573	6,716,195	9,594,459	7,435,350
Share capital	**20,797**	20,797	20,797	20,797	232
Reserves	**1,313,885**	2,538,776	6,695,398	9,573,662	7,435,118
Total equity attributable to owners of the Company	**1,334,682**	2,559,573	6,716,195	9,594,459	7,435,350
Non-controlling interests	**42,272**	–	–	–	–
	1,376,954	2,559,573	6,716,195	9,594,459	7,435,350
(Loss)/earnings per share					
Basic and diluted (RMB)	**(0.39)**	(1.37)	(0.89)	0.22	2.61