Nature Flooring Holding Company Limited

大自然地板控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 2083

INTERIM REPORT 2013

Contents

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Se Hok Pan *(Chairman and President)*
Ms. Un Son I
Mr. She Jian Bin
Mr. Chow Chi Keung Savio

Non-executive Directors

Mr. Homer Sun
Mr. Teoh Chun Ming

Independent non-executive Directors

Professor Li Kwok Cheung, Arthur
Mr. Zhang Sen Lin
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Alternate Director

Mr. Law Wing Cheung, Ryan
(alternate director to Mr. Homer Sun)

Audit Committee

Mr. Chan Siu Wing, Raymond *(Chairman)*
Mr. Zhang Sen Lin
Mr. Ho King Fung, Eric

Remuneration Committee

Professor Li Kwok Cheung, Arthur *(Chairman)*
Mr. Zhang Sen Lin
Mr. Ho King Fung, Eric

Executive Committee

Mr. Se Hok Pan *(Chairman)*
Ms. Un Son I

Nomination Committee

Mr. Se Hok Pan *(Chairman)*
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Corporate Governance Committee

Mr. Se Hok Pan *(Chairman)*
Mr. Ho King Fung, Eric
Mr. Teoh Chun Ming

Company Secretary

Mr. Tsang Chun Yiu

Authorised Representatives

Mr. Se Hok Pan
Mr. Tsang Chun Yiu

Auditors

KPMG

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China
Standard Chartered Bank (Hong Kong) Limited

Registered Office

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

Principal Place of Business in Hong Kong

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West Tower, Shun Tak Centre
Nos. 168–200 Connaught Road Central
Hong Kong

Head Office in the PRC

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New District
Daliang, Shunde
Foshan City
Guangdong Province
PRC

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 Branch Share Registrar and Transfer Office

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

www.nature-flooring.com.hk

Stock Code

2083

Business Review

For the six months ended 30 June 2013 (the "period"), the government of the People's Republic of China ("PRC") continued to exercise stringent control over the nation-wide real-estate market. Furthermore, the costs of human resources and production increased throughout the domestic market, Nature Flooring Holding Company Limited (the "Company") and its subsidiaries (the "Group") still encountered a difficult operating environment. However, the business of the Group has returned to a stable growth during the period, with the overall turnover increased by 12.0% when compared to the corresponding period of last year. In respect of manufacturing and sale of wood products, trademarks and distribution network usage fees, and trading of timber and wood products, the Group recorded an increase in turnover of approximately 1.0%, approximately 20.9% and 69.7%, respectively. With various major sales and promotion campaigns consistently arranged in certain cities of China during the period, the Group constantly strived to enlarge its market share. In addition, the Group expanded its business in the United States ("U.S.") during the period by establishing various sales channels resulting in a significant growth in its U.S. business. The Group maintained a sound gearing ratio and foundation during the period, which enabled it to sustain a steady development in a difficult environment.

1. The flooring business

The Group's flooring products are mainly laminated flooring, solid wood flooring and solid wood engineered flooring. For the six months ended 30 June 2013, the Group sold a total of 8.4 million square metres of the above major flooring products in the PRC and overseas versus 7.8 million square metres for the six months ended 30 June 2012, which represented an increase of 7.7%. In respect of its flooring store network, the Group had a total of 3,240 flooring stores as of 30 June 2013 (versus 3,269 as of 31 December 2012). Of the total number of stores, there were 1,856 "Nature" stores (versus 2,044 as of 31 December 2012), 1,106 "Nature • No. 1 My Space" stores (versus 1,009 as of 31 December 2012), 162 "Nature • Aesthetics" stores (versus 167 as of 31 December 2012). Subsequent to the tough year of 2012, as the total flooring sales volume during the period slightly increased when compared to the corresponding period of last year and the total number of flooring stores remained stable, the Group maintained a sound flooring business and sales network.

2. The businesses of wooden doors and wardrobes

The business of wooden doors and wardrobes is one of the prioritized businesses of the Group. By leveraging the brand recognition of "Nature", the Group created two brands, namely "Nature Desenberg" and "Nature Vanessa" to further tap into this business. In addition, "Nature Desenberg" changed its name into "Nature Wooden Doors" to enhance brand recognition. In respect of its wooden doors business, the overall gross profit margin of the Group is currently affected by a relatively high production cost. However, the construction of the plant located in Taizhou City, Jiangsu Province, China (the "Taizhou plant") of the Group is making desirable progress and, upon completion, it will become the largest plant among the wooden doors business of the Group with advanced production equipment imported from overseas. We aim and strive to commence trial production by the end of 2013, reduce the production cost of wooden doors, shorten the delivery cycle so as to improve the relevant business. As of 30 June 2013, the Group had opened 333 (versus 300 as of 31 December 2012) wooden door stores. On the front of wardrobes operation, although the Group's plant in Nanhai District of Foshan City, Guangdong Province has commenced production in 2012, its operation was still in the initial stage. In addition to the relatively high production cost, the business performance was still unsatisfactory and a loss was continuously recorded. The Group will strive to lower the cost and continue to leverage the brand recognition of "Nature" to increase sales, and seek other means to develop wardrobes operation, including strategies such as acting as a sales agent for oversea brands, to improve the results of the relevant business. As of 30 June 2013, the Group had opened 125 (31 December 2012: 124) wardrobe stores.

Forest Resources Business

As of 30 June 2013, the Group owned the land use rights and forestry concessions of 8,163 hectares of forest assets in Yunnan Province, China and of 137,087 hectares of forest assets in Loreto Province, Peru. These forest assets contain several species of trees which are used in premium solid wood flooring products. The Group ensured that the Group and its authorized manufacturers can enjoy steady supply of high quality woods by enhancing our control on wood resources.

In addition, the Company and International Finance Corporation ("IFC"), a member of the World Bank group and a shareholder of the Company holding approximately 7.29% of the issued share capital of the Company as at the date of this report, entered into a loan agreement on 15 January 2013 (the "Loan Agreement"), whereby IFC agreed to lend and the Company agreed to borrow a term loan of up to US$30,000,000 (the "Term Loan") and a convertible loan of up to US$10,000,000 (the "Convertible Loan" together with the Term Loan, the "Loan"). The Company has drawn down in full the Term Loan and the Convertible Loan on 31 May 2013. The Loan was intended to be used wholly for funding the acquisition by the Group of forest plantations in the PRC for wood supply in the PRC and related working capital needs.

Since the date of first disbursement of the Loan, being 31 May 2013, the Group has not entered into any definitive agreement for the acquisition of any forest plantations in the PRC as the Company is of the view that the target forestry plantation in the PRC which the Group has identified may not meet the investment hurdle of the Group after the business and legal due diligence process and the Group has not identified any other target forestry plantation in the PRC. As such, on 17 September 2013, the Company entered into a prepayment agreement with IFC (the "Prepayment Agreement") pursuant to which the Company prepaid the Term Loan of US$30,000,000 and the Convertible Loan of US$10,000,000 in full on 18 September 2013.

Prospect

Although the market environment in China remained challenging, as the Group has a solid business foundation and market share, the Group will endeavor to continue to maintain steady business growth in the second half of 2013. In addition, the Group will adjust the control of the upstream forest resources according to the needs of sales and production.

Our self-owned brand "Nature" has successfully built up the image of quality safe products, healthy lifestyle and environmental protection among consumers. All of the flooring products of the Group and our authorized manufacturers are promoted and sold under our self-owned "Nature" brand. In June 2013, the Company had changed its name to "Nature Flooring Holding Company Limited". We believe the new company name will further enhance the recognition of the brand. The Group will continue to adjust and integrate the business in line with the economic development of the market and to strengthen and consolidate our market position with the brand of "Nature", in order to create value for the shareholders of the Company.

Financial Review

Revenue

We generate revenue from three business segments: (1) manufacturing and sale of wood products; (2) trademark and distribution network usage fees; and (3) trading of timber and wood products.

Revenue from manufacturing and sale of wood products represents the revenue generated in the course of sales activities of laminated flooring, engineered flooring and other wood products we manufacture at our own factories and is measured at the fair value of the consideration received or receivable, net of returns, trade discounts.

Revenue from trademark and distribution network usage fees represents the fees for which we charged to authorised manufacturers in accordance with the terms of the relevant agreements with reference to the production output and sales volume of our branded wood products.

Revenue from trading of timber and wood products represents the revenue generated primarily from our branded wood products trading to customers in oversea markets and timber trading to various customers, including our authorized manufacturers and other wood products manufacturers.

The following table sets forth the revenue recorded by each business segment for the periods indicated.

	Six months ended 30 June		
	2013	2012	
	RMB'000	RMB'000	Growth rate
Revenue			
Manufacturing and sale of wood products	**378,379**	374,595	1.0%
Trademark and distribution network usage fees	**86,561**	71,608	20.9%
Trading of timber and wood products	**102,037**	60,130	69.7%
Total	**566,977**	506,333	12.0%

For the six months ended 30 June 2013, the Group recorded revenue of approximately RMB566,977,000 representing an increase of 12.0% as compared with approximately RMB506,333,000 recorded in the corresponding period of 2012.

During the period, the revenue from manufacturing and sale of wood products increased by 1.0% to approximately RMB378,379,000 from approximately RMB374,595,000 in the corresponding period of 2012 and the revenue from trademark and distribution network usage fees increased by 20.9% to approximately RMB86,561,000 from approximately RMB71,608,000 in the corresponding period of 2012. They were mainly attributable to the increase in demand for our branded engineered flooring products with higher selling price.

During the period, trading of timber and wood products increased significantly by 69.7% to approximately RMB102,037,000 from approximately RMB60,130,000 in the corresponding period of 2012. It was mainly due to the significant increase in demand of our flooring products in the U.S after we have modified our business strategies.

Cost of Sales

Cost of sales for manufacturing and sale of wood products consists primarily of raw materials costs, staff costs and overhead. The major raw materials used in our own manufacturing activities are timber, veneers, fiberboards and plywood. Labour costs consist of salaries, wages and other benefits we paid to our production staff. Overhead costs primarily include utilities, depreciation and others.

Cost of sales for trademark and distribution network usage fees consists primarily of the labour costs and travelling expenses relating to our representatives who provide authorised manufacturers with on-site technical and logistics support and conduct quality control measures on their products.

Cost of sales for trading of timber and wood products consists primarily of the cost of timber and wood products purchased for trading.

Set forth below is the cost of sales by each business segment for the periods indicated:

	Six months ended 30 June		
	2013	2012	
	RMB'000	RMB'000	Growth rate
Cost of Sales			
Manufacturing and sale of wood products	**309,614**	292,046	6.0%
Trademark and distribution network usage fees	**1,955**	2,705	(27.7%)
Trading of timber and wood products	**86,520**	49,563	74.6%
Total	**398,089**	344,314	15.6%

Gross Profit and Gross Profit Margin

Gross profit is calculated by revenue less cost of sales.

The tables below shows the gross profit and gross profit margin by each business segment during the periods as indicated:

	Six months ended 30 June		
	2013	2012	
	RMB'000	RMB'000	Growth rate
Gross Profit			
Manufacturing and sale of wood products	**68,765**	82,549	(16.7%)
Trademark and distribution network usage fees	**84,606**	68,903	22.8%
Trading of timber and wood products	**15,517**	10,567	46.8%
Total	**168,888**	162,019	4.2%

	Six months ended 30 June	
	2013	2012
	%	%
Gross Profit Margin		
Manufacturing and sale of wood products	**18.2**	22.0
Trademark and distribution network usage fees	**97.7**	96.2
Trading of timber and wood products	**15.2**	17.6
Total	**29.8**	32.0

For the six months ended 30 June 2013, the overall gross profit increased by 4.2% to approximately RMB168,888,000 from approximately RMB162,019,000 in the corresponding period of 2012. The increase in gross profit was primarily reflecting the increase in gross profit from the growth on overall sales volumes out-weighted the decrease in gross profit from lower gross profit margin.

On the other hand, the overall gross profit margin decreased to 29.8% in current period from 32.0% in the corresponding period of 2012. The decrease in overall gross profit margin was mainly attributable to the increase in shares of the trading of timber and flooring products which is the lowest gross profit margin, to overall turnover and the decrease in the gross profit margin of manufacturing and sale of wood products.

During the period, the manufacturing and sale of wood products contributed a gross profit of approximately RMB68,765,000, representing a decrease of 16.7% from approximately RMB82,549,000 in the corresponding period of 2012. The gross profit margin for the manufacturing and sale of wood products decreased to 18.2% from 22.0% in the corresponding period of 2012. The decrease in gross profit and gross profit margin of the manufacturing and sale of wood products were mainly attributable to the relative low margin on new wood products at the beginning stage resulted from the expansion of product portfolio.

During the period, trademark and distribution network usage fees contributed a gross profit of approximately RMB84,606,000, representing an increase of 22.8% from approximately RMB68,903,000 in the corresponding period of 2012, which was mainly due to the increase in sales volumes of the wood flooring products manufactured by our authorized manufacturers.

During the period, trading of timber and wood products contributed a gross profit of approximately RMB15,517,000, representing a significant increase of 46.8% from approximately RMB10,567,000. It was mainly due to the significant increase in demand of our flooring products in the U.S after we have modified our business strategies.

Net change in fair value of biological assets

Net change in fair value of biological assets is recorded in connection with our forest assets acquired in prior periods. Net change in fair value of biological assets of approximately negative RMB73,359,000 (for the six months ended 30 June 2012: gain of approximately RMB4,581,000) in current period represented the decrease in fair value of our forest assets based on the market valuation conducted by a forestry consultant, Pöyry (Beijing) Consulting Co. Ltd. The net change in fair value of biological assets was non-cash in nature and had no effect on the cash flow of the Group.

Other Net Income

Other net income consists primarily of government grants which are subject to the discretion of the relevant authorities. During the period, other net income increased significantly by 490.7% to approximately RMB62,635,000 from approximately RMB10,603,000 in the corresponding period of 2012. The significant increase in other net income was primarily resulted from the recognition of net gain on the resumption of land and assets of Nature (Zhangjiagang) Wood Industry Co., Ltd., a wholly-owned subsidiary of the Company, by the Jingang County Government.

Distribution Costs

Distribution costs consist primarily of advertising and promotion expenses, transportation fees, salaries, wages and other benefits, travelling expenses and other miscellaneous expenses.

During the period, distribution costs were approximately RMB86,836,000, representing an increase of 2.2% from approximately RMB84,978,000 in the corresponding period of 2012. The increase in distribution costs was primarily resulted from increasing selling activities on the expansion of our product portfolio.

Administrative Expenses

Administrative expenses consist of primarily of salaries, wages and other benefits for the administrative staff, audit fee, consulting fee, depreciation, impairment loss recognised for receivables, office expenses, rental and other miscellaneous expenses.

During the period, administrative expenses were approximately RMB108,040,000, representing an increase of 45.1% from approximately RMB74,468,000 in the corresponding period of 2012. The increase was primarily attributable to the impairment loss recognised for receivables as well as the increase in staff cost resulted from expansion of product portfolio.

Other Operating Expenses

Other operating expenses mainly consist of impairment loss for the investments in unlisted equity securities, change in fair value of forward foreign exchange transactions, loss on disposal of items of property, plant and equipment, scrap material and donations.

Net Finance (Cost)/Income

Net finance (cost)/income represent the difference between finance income and finance cost. Finance income consists primarily of interest income on bank deposits and net foreign exchange gain. Finance cost consists primarily of interest expenses on bank loans and convertible notes.

Set forth below are the components of net finance (cost)/income for the periods indicated:

	Six months ended 30 June		
	2013	2012	
	RMB'000	RMB'000	Growth rate
Net finance (cost)/income			
Finance income	**5,190**	4,965	4.5%
Finance cost	**(8,213)**	(3,117)	163.5%
Total	**(3,023)**	1,848	(263.6%)

Finance income increased by 4.5% to approximately RMB5,190,000 in current period as compared to approximately RMB4,965,000 in the corresponding period of 2012, primarily due to the longer terms of deposit with higher interest rate.

Finance cost increased significantly by 163.5% to approximately RMB8,213,000 in current period as compared to approximately RMB3,117,000 in the corresponding period of 2012, primarily due to the exchange loss recognised resulted from the depreciation of foreign currency on oversea receivables.

Income Tax

Income tax represents our current income tax and deferred income tax. The member companies of the Group are subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which the companies are domiciled or operated. The table below sets out income tax in the periods indicated:

	Six months ended 30 June		
	2013	2012	
	RMB'000	RMB'000	Growth rate
Income Tax			
Current	**24,937**	10,278	142.6%
Deferred	**(17,059)**	(1,672)	920.3%
Total	**7,878**	8,606	(8.5%)

Income tax charged for the Group was approximately RMB7,878,000 for the six months ended 30 June 2013, representing a decrease of 8.5% from approximately RMB8,606,000 in the corresponding period of 2012.

During the period, the current income tax significantly increased by 142.6% to approximately RMB24,937,000 from approximately RMB10,278,000 in the corresponding period of 2012. It was mainly attributable to the increase in taxable profits of certain PRC subsidiaries engaged in manufacturing and sale of flooring products.

The recognition of deferred income tax credits increased by 920.3% to approximately RMB17,059,000 during the period from approximately RMB1,672,000 in the corresponding period of 2012. The increase was primarily due to the recognition of deferred tax assets in respect of the significant impairment loss recognised for receivables.

Loss attributable to equity shareholders of the Company

Resulting from the factors mentioned above, the loss attributable to equity shareholders of the Company for the six months ended 30 June 2013 was approximately RMB55,248,000, comparing to the profit attributable to equity shareholders of the Company of approximately RMB3,523,000 in the corresponding period of 2012.

Cash Flow and Liquidity

Cash Flows

The table below sets out the cash flow data from our condensed consolidated cash flow statement.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	**(22,474)**	91,319
Net cash used in investing activities	**(35,105)**	(77,500)
Net cash used in financing activities	**(11,677)**	(178,010)
Net decrease in cash and cash equivalents	**(69,256)**	(164,191)
Cash and cash equivalents at the beginning of period	**815,706**	865,638
Effect of foreign exchange rate changes	**(4,111)**	2,307
Cash and cash equivalents at the end of the period	**742,339**	703,754

Liquidity

Net current assets and working capital sufficiency

The table below sets out our current assets, current liabilities and net current assets as at the end of the dates indicated.

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Current assets		
Inventories	**406,020**	380,531
Trade and bills receivables	**650,490**	671,788
Prepayment, deposit and other receivables	**183,268**	108,776
Pledged deposits	**53,250**	13,528
Cash and cash equivalents	**742,339**	815,706
Total current assets	**2,035,367**	1,990,329
Current liabilities		
Trade and bills payables	**151,000**	137,732
Accruals and other payables	**152,659**	192,627
Loans and borrowings	**52,849**	155,589
Income tax payables	**16,332**	9,270
Total current liabilities	**372,840**	495,218
Net current assets	**1,662,527**	1,495,111

As at 30 June 2013, net current assets totaled increased by 11.2% to approximately RMB1,662,527,000 from approximately RMB1,495,111,000 as at 31 December 2012. The Group meets its working capital and other capital requirements principally with cash received from our operations, proceeds from the global offering and loans and borrowings. The current ratios as at 30 June 2013 and 31 December 2012 were 5.46 and 4.02, respectively.

Capital Management

The following table presents our adjusted net debt-to-capital ratios as at the end of the dates indicated.

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Total debts	**304,107**	206,638
Add: Proposed dividends	**—**	27,603
Less: Cash and cash equivalent	**(742,339)**	(815,706)
Pledged deposits	**(53,250)**	(13,528)
Adjusted net asset	**(491,482)**	(594,993)
Total equity attributable to owners of the Company	**2,469,895**	2,562,160
Less: Proposed dividends	**—**	(27,603)
Adjusted capital	**2,469,895**	2,534,557
Gearing ratio	**(0.20)**	(0.23)

Our adjusted net debt-to-capital ratios, which are derived by dividing adjusted net assets by adjusted capital, were negative 0.20 and negative 0.23 as at 30 June 2013 and 31 December 2012, respectively. Adjusted net asset is defined as total debt which includes bills payable, interest-bearing loans and borrowings and less cash and cash equivalents and pledged deposits.

Indebtedness

Loans and Borrowings

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Bank loans	**16,101**	28,663
Convertible loan (note (i))	**55,864**	—
Other loans	**213,292**	143,275
	285,257	171,938

An analysis of current and non-current loans and borrowings is as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Current:		
— secured (note (ii))	**36,748**	126,926
— unsecured	**16,101**	28,663
	52,849	155,589
Non-current:		
— secured (note (ii))	**232,408**	16,349
	285,257	171,938

All of the non-current loans are carried at amortised cost. As at 30 June 2013, none of the non-current loans and borrowings is expected to be settled within one year.

(i) On 15 January 2013, the Company entered into a loan agreement ("Loan Agreement") with International Finance Corporation ("IFC"), a shareholder of the Company holding approximately 7.29% of the issued share capital of the Company as at the date of this report, for borrowing of a convertible loan of up to USD10,000,000. The net proceeds of the convertible loan are intended to be used for funding the acquisition of forest plantations in the PRC and related working capital. The net proceed was received on 31 May 2013.

The movement of the convertible loan during the six months ended 30 June 2013 is set out below:

	Host liability component RMB'000	**Derivative liability** RMB'000 (note)	**Total** RMB'000
At 1 January 2013	—	—	—
Issuance of convertible loan	58,466	3,324	61,790
Amortisation	(2,602)	—	(2,602)
Change in fair value	—	(681)	(681)
Effect of movement in exchange rate	—	9	9
At 30 June 2013	55,864	2,652	58,516

Note: The derivative liability is recorded under deposits received, accruals and other payables.

(ii) At the end of the reporting period, secured loans and borrowings of approximately RMB27,931,000 (31 December 2012: approximately RMB143,275,000) were secured by the following assets of the Group:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Pledged deposits	**45,164**	11,247
Property, plant and equipment	**79,412**	84,908
Lease prepayments	**21,308**	21,371
Bills receivable	**—**	110,577
	145,884	228,103

The convertible loan of approximately RMB55,864,000 and a loan of approximately RMB185,361,000 (equivalent to USD30,000,000) (31 December 2012: Nil), included in secured loans and borrowings as at 30 June 2013, were secured by the following items:

- the trademark of "Nature" and "大自然" and another 30 trademarks under the "Nature" and "大自然" brands;
- a personal guarantee of USD10,000,000 (equivalent to approximately RMB61,787,000) issued by Mr. Se Hok Pan, the Group's controlling shareholder; and
- the Company's equity interests in two operating subsidiaries, namely Guangdong Yingran Wood Industry Co., Limited and Yingyi-Nature (Kunshan) Wood Industry Co., Limited. The carrying amount of these operating subsidiaries recorded under the Company's statement of financial position as at 30 June 2013 was approximately RMB66,625,000 and approximately RMB52,417,000 respectively.

(iii) As at 30 June 2013, loans and borrowings of approximately RMB24,396,000 (31 December 2012: nil) are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants.

As at 30 June 2013, none of the covenants relating to loans and borrowings had been breached.

(iv) The loan facilities, amounting to approximately RMB460,686,000 as at 30 June 2013 (31 December 2012: approximately RMB398,692,000), were utilised to the extent of approximately RMB229,393,000 as at 30 June 2013 (31 December 2012: approximately RMB171,938,000).

(v) On 17 September 2013, the Company entered into a prepayment agreement with IFC pursuant to which the Company prepaid the term loan of US$30,000,000 and the convertible loan of US$10,000,000 in full on 18 September 2013. On the same date, Nature (Zhongshan) Wood Industry Co., Ltd. ("Zhongshan Nature"), Jiangxi Nature Wood Based Panels Co., Ltd. ("Jiangxi Nature") and Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. ("Kunshan Nature") entered into a prepayment agreement with IFC pursuant to which Zhongshan Nature, Jiangxi Nature and Kunshan Nature shall repay the loans granted by IFC to them in full on 27 September 2013, the outstanding sum of which amounted US$3,900,000.

Upon prepayment of the abovementioned loans from IFC, all loans owed by members of the Group to IFC would have been repaid in full and the collaterals and guarantees granted by members of the Group in favour of IFC to secure such loans will be released.

The Group's interest rate risk arises primarily from deposits with banks and other financial institutions, short term and long term borrowings issued at variable rates and fixed rates that expose the Group to cash flow interest rate risk. Loans and borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively.

Capital Commitments and Contingent Liabilities

(a) Capital commitments

Capital commitments outstanding as at 30 June 2013 not provided for in the interim report are as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Contracted for	**33,757**	80,238

(b) Operating lease commitments

At the end of the reporting period, the future minimum lease payments under operating leases were payable as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 year	**13,248**	8,022
After 1 year but within 3 years	**10,129**	12,540
After 3 year but within 5 years	**8,164**	9,516
After 5 years	**14,778**	18,662
Total	**46,319**	48,740

Foreign Currency Risk

The Group's principal activities are carried out in the PRC. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

The Group is exposed to currency risk primarily arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("USD"), Hong Kong Dollars ("HKD"), Macau Pataca ("MOP"), Peruvian Nuevo Sol ("PEN"), Euro ("EUR") and Japanese yen ("JPY"). As at 30 June 2013, the cash and cash equivalents held by the Group were primarily in terms of RMB, HKD and USD, representing 55.8%, 2.5% and 40.7% (31 December 2012: 87.8%, 1.7% and 10.2%) of total amounts, respectively. The rest of the amounts were held in terms of MOP, PEN and EUR. On the other hand, as at 30 June 2013, our bank loans were primarily in terms of RMB, HKD, USD and EUR, representing nil, 3.0%, 95.6% and 1.4% (31 December 2012: 64.3%, 12.8%, 19.8% and 3.1%) of total amount, respectively. The rest of the amounts were held in terms of EUR and JPY.

The Group may enter into forward foreign exchange contracts to hedge against the exchange rate fluctuation when the exposure is significant. For details regarding the forward foreign exchange transactions of the Group during the Period, please refer to Note 4(b)(ii) of this report.

Employees

As at 30 June 2013, the Group had 2,575 employees (at 31 December 2012: 2,389). Relevant staff cost for the six months ended 30 June 2013 was approximately RMB86,128,000 (including share option expenses of approximately RMB6,524,000) while our staff cost was approximately RMB81,075,000 (including share option expenses of approximately RMB7,596,000) for the corresponding period of 2012. The Group will regularly review remuneration and benefits of its employees according to the prevailing market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including contribution to social insurance and employee provident fund schemes as well as share option schemes.

Material Acquisitions and Disposals of Subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries or associated companies during the period ended 30 June 2013.

Use of Proceeds from the Global Offering

In May 2011, the Company's shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A total of 388,265,000 shares were issued at HKD2.95 per share for a total of approximately HKD1,145 million. The net proceeds raised from the abovementioned global offering of the Company, which are approximately RMB873.5 million, are and will be used in accordance with the purposes disclosed in the prospectus of the Company dated 16 May 2011.

During the period from the listing of the Company's shares on the Stock Exchange to 30 June 2013, approximately RMB564.5 million raised from the global offering of the Company was used for the purposes and approximately in the amounts set out below:

- Approximately RMB104.6 million was used for strategic merger and acquisition;
- Approximately RMB108.7 million was used for the development of existing brands;
- Approximately RMB77.3 million was used for working capital and general corporate purpose;
- Approximately RMB66.6 million was used for strengthen the distribution network;
- Approximately RMB120.0 million was used for the expansion of existing production facilities; and
- Approximately RMB87.3 million was used for the expansion of product portfolio.

As at 30 June 2013, approximately RMB309.0 million raised from the global offering remains unused. Such unused proceeds are placed on deposits with banks or financial institutions.

Events After Reporting Period

On 17 September 2013, the Company entered into a prepayment agreement with IFC (the "Prepayment Agreement") pursuant to which the Company prepaid the Term Loan of US$30,000,000 and the Convertible Loan of US$10,000,000 in full on 18 September 2013.

Pursuant to the Prepayment Agreement, in respect of the prepayment of the Term Loan, the Company paid to IFC a prepayment premium and an unwinding cost in the aggregate amount of approximately US$620,000. In addition, the Company paid to IFC all unpaid accrued interest on the Term Loan up to and including the date of prepayment calculated in accordance with the terms of the Loan Agreement in an aggregate sum of approximately US$420,000.

Pursuant to the Prepayment Agreement, in respect of the prepayment of the Convertible Loan, the Company paid to IFC a prepayment premium and an unwinding cost in the aggregate amount of approximately US$210,000. In addition, the Company paid to IFC all accrued interest on the Convertible Loan up to and including the date of prepayment. The Company and IFC agreed that the interest on the Convertible Loan shall, instead of 1% per annum on top of LIBOR for six months on the interest determination date for the relevant interest period as stipulated in the Loan Agreement, be revised to 5% per annum on top of LIBOR for six months on the interest determination date for the relevant interest period. The unpaid accrued interest payable for the Convertible Loan up to and including the date of prepayment is approximately US$140,000.

The Term Loan and the Convertible Loan have been prepaid and the relevant prepayment premium, accrued interest and unwinding costs have been paid on 18 September 2013.

Reference is also made to the prospectus of the Company dated 16 May 2011 (the "Prospectus"). As disclosed in the Prospectus, on 21 May 2008, IFC entered into separate loan agreements with Nature (Zhongshan) Wood Industry Co., Ltd. ("Zhongshan Nature"), Jiangxi Nature Wood Based Panels Co., Ltd. ("Jiangxi Nature") and Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. ("Kunshan Nature"), pursuant to which IFC has granted loans in favour of Zhongshang Nature, Jiangxi Nature and Kunshan Nature, which are to be repaid in equal six monthly installments between 15 June 2010 and 15 December 2014 (the "2008 IFC Loans"). Zhongshang Nature, Jiangxi Nature and Kunshan Nature are wholly-owned subsidiaries of the Company.

On 17 September 2013, Zhongshan Nature, Jiangxi Nature and Kunshan Nature entered into a prepayment agreement with IFC (the "2008 IFC Loans Prepayment Agreement") pursuant to which Zhongshan Nature, Jiangxi Nature and Kunshan Nature shall repay the respective loans granted by IFC to them in full on 27 September 2013. As of the date of 2008 IFC Loans Prepayment Agreement, the outstanding principal amounts of the loans granted by IFC to Zhongshan Nature, Jiangxi Nature and Kunshan Nature are in the aggregate sum of US$3,900,000.

Pursuant to the 2008 IFC Loans Prepayment Agreement, in respect of the prepayment of the 2008 IFC Loans, Zhongshan Nature, Jiangxi Nature and Kunshan Nature shall pay to IFC a unwinding cost and all unpaid accrued interest on the 2008 IFC Loans up to and including 27 September 2013 in an aggregate sum of approximately US$42,000.

Upon prepayment of the Term Loan, the Convertible Loan and the 2008 IFC Loans, all loans owed by members of the Group to IFC would have been repaid in full and the collaterals and guarantees granted by members of the Group in favour of IFC to secure such loans will be released.

For details please refer to the announcement of the Company dated 17 September 2013 regarding the prepayment of the Term Loan, the Convertible Loan and the 2008 IFC Loans.

Future Plans for Material Investments

There was no specific plan for material investments and acquisition of material capital assets as at 30 June 2013. However, the Group will continue to seek new business development opportunities.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2013, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

	Number of shares held			
Name of Director	**Personal Interest**	**Corporate Interest**	**Total**	**Percentage of shareholding**
Mr. Se Hok Pan (also the President)	25,900,000 1,500,000 (Note 1) 27,400,000	719,321,730 (Note 2)	746,721,730	50.39%
Ms. Un Son I	1,500,000 (Note 1)	719,321,730 (Note 2)	720,821,730	48.64%
Mr. She Jian Bin	1,500,000 (Note 1)	Nil	1,500,000	0.10%
Mr. Chow Chi Keung, Savio	1,500,000 (Note 1)	Nil	1,500,000	0.10%
Mr. Teoh Chun Ming	4,677,900 (Note 1)	Nil	4,677,900	0.32%
Professor Li Kwok Cheung, Arthur	1,000,000 (Note 1)	Nil	1,000,000	0.07%
Mr. Zhang Sen Lin	1,000,000 (Note 1)	Nil	1,000,000	0.07%
Mr. Chan Siu Wing, Raymond	1,000,000 (Note 1)	Nil	1,000,000	0.07%
Mr. Ho King Fung, Eric	1,000,000 (Note 1)	Nil	1,000,000	0.07%

Notes:

1. *These interests represent the options granted to the directors pursuant to the terms of the share option scheme adopted by the Company, which entitle the directors to subscribe for shares of the Company. Details of such options are disclosed under the paragraph headed "Share Option Schemes" below.*

2. *Amongst these 719,321,730 shares, 718,921,730 shares are owned by Freewings Development Co., Ltd. and 400,000 shares are owned by Loyal Winner Limited. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 44.92% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Loyal Winner Limited is a private company beneficially owned as to 50% by Mr. Se Hok Pan and 50% by Ms. Un Son I. Ms. Un Son I is the spouse of Mr. Se Hok Pan.*

3. *All interests stated are long positions.*

Substantial Shareholders

As at 30 June 2013, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity and nature of interest	Number of shares held	Percentage of shares in issue
Freewings Development Co., Ltd.	Beneficial owner	718,921,730 (Note 1)	48.52%
Team One Investments Limited	Interest in controlled corporations	718,921,730 (Note 1)	48.52%
Trader World Limited	Interest in controlled corporations	718,921,730 (Note 1)	48.52%
MS Flooring Holdings Co., Ltd.	Beneficial owner	269,999,990 (Note 2)	18.22%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd.	Interest in controlled corporations	269,999,990 (Note 2)	18.22%
Morgan Stanley Private Equity Asia III, Inc.	Interest in controlled corporations	269,999,990 (Note 2)	18.22%
Morgan Stanley Private Equity Asia III, L.L.C.	Interest in controlled corporations	269,999,990 (Note 2)	18.22%
Morgan Stanley Private Equity Asia III, L.P.	Interest in controlled corporations	269,999,990 (Note 2)	18.22%
International Finance Corporation	Beneficial owner	108,000,000	7.29%

Notes:

1. *Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 44.92% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Mr. Se Hok Pan, Ms. Un Son I, Mr. She Jian Bin and Mr. Chow Chi Keung, Savio are directors of Freewings Development Co. Ltd..*

2. *MS Flooring Holdings Co., Ltd. is an exempted company incorporated in the Cayman Islands, and is wholly-owned by Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is Morgan Stanley Private Equity Asia III, L.P., a fund managed by the private equity arm of Morgan Stanley. The general partner of Morgan Stanley Private Equity Asia III, L.P. is Morgan Stanley Private Equity Asia III, L.L.C., the managing member of which is Morgan Stanley Private Equity Asia III, Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is an indirect wholly-owned subsidiary of Morgan Stanley.*

3. *All interests stated are long positions.*

Save as disclosed above, the Directors are not aware that there is any party who, as at 30 June 2013, had interests or short positions in the shares and 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 recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Rights to Acquire Company's Securities

Other than as disclosed under the section headed "Share Option Schemes" below, at no time during the period was the Company or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Schemes

Pre-IPO Share Option Scheme

On 16 December 2008, a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The rules of the Pre-IPO Share Option Scheme were subsequently amended pursuant to a written resolution passed by our then shareholders on 30 June 2010 and a written resolution of the Board on 26 April 2011. The purpose of the Pre-IPO Scheme Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Eligible persons of the Pre-IPO Share Option Scheme include all employees (full-time or part-time) of the Company or any of its subsidiaries or investee companies.

Subject to the satisfactory performance of the participants of the Pre-IPO Share Option Scheme, the options granted to each of the participants shall be vested in accordance with the following schedule:

For the options granted on 17 December 2008

Vesting period	Maximum cumulative percentage of options vested
30 December 2008	10%
30 December 2009	20%
30 December of the year of the date of listing i.e. 26 May 2011 (the "Listing Date")	50%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

For the options granted on 1 July 2010

Vesting period	Maximum cumulative percentage of options vested
30 December 2010	20%
30 December of the year of the Listing Date	40%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

Each option granted under the Pre-IPO Share Option Scheme has a ten-year exercise period provided that none of the options (whether they are vested or not) shall be exercisable before the expiry of 18 months from the Listing Date.

Further details of the principal terms of the Pre-IPO Share Option Scheme are set out in the prospectus of the Company dated 16 May 2011. Details of the share options movements during the six months ended 30 June 2013 under the Pre-IPO Share Option Scheme are as follows:

Category of participants	Date of grant	Exercise period	Exercise price per share	No. of shares involved in the options outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	No. of shares involved in the options outstanding at period end
Director of the Company							
Teoh Chun Ming	17/12/2008	17/12/2008–16/12/2018	HK$2.35	1,677,900	—	—	1,677,900
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	1,500,000	—	—	1,500,000
Director of our subsidiaries							
Liang Zhihua	17/12/2008	17/12/2008–16/12/2018	HK$2.35	576,780	—	—	576,780
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	7,000,000	—	—	7,000,000
Former Director of the Company							
Nam Cheung Ming	17/12/2008	17/12/2008–16/12/2018	HK$2.35	1,887,640	—	—	1,887,640
Employees							
Employees	17/12/2008	17/12/2008–16/12/2018	HK$2.35	11,615,650	—	167,780	11,447,870
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	3,500,000	—	—	3,500,000
Total				27,757,970	—	167,780	27,590,190

No option under the Pre-IPO Share Option Scheme has been granted or cancelled during the six months ended 30 June 2013. No further option has been or will be granted under the Pre-IPO Share Option Scheme after the listing of the Company.

Share Option Scheme

The Company has also adopted a share option scheme on 3 May 2011 (the "Share Option Scheme"). The rules of the Share Option Scheme were subsequently amended pursuant to a resolution of the Board on 28 November 2011. The purpose of the Share Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Eligible persons under the Share Option Scheme include, among others, employees, directors, customers, business or joint venture partners, advisors, consultant, contractor, suppliers, agents or service providers of the Group and their respective full-time employees.

Further details of the principal terms of the Share Option Scheme are set out in the prospectus of the Company dated 16 May 2011.

On 4 January 2012, options involving 68,000,000 shares were granted under the Share Option Scheme. The options granted to each of the grantees under the Share Option Scheme shall be vested and become exercisable upon the third anniversary of the date of grant. Vested options shall be exercisable until the expiry of a ten-year period from the date of grant. Grantees of such options are entitled to exercise the options at an exercise price of HK$1.45 per share. The closing price per share in the trading day immediately before 4 January 2012 is HK$1.37.

Details of the share options movements during the six months ended 30 June 2013 under the Share Option Scheme are as follows:

Category of participants	No. of shares involved in the options outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	No. of shares involved in the options outstanding at period end
Directors				
Se Hok Pan	1,500,000	—	—	1,500,000
Un Son I	1,500,000	—	—	1,500,000
She Jian Bin	1,500,000	—	—	1,500,000
Chow Chi Keung, Savio	1,500,000	—	—	1,500,000
Teoh Chun Ming	1,500,000	—	—	1,500,000
Li Kwok Cheung, Arthur	1,000,000	—	—	1,000,000
Zhang Sen Lin	1,000,000	—	—	1,000,000
Chan Siu Wing, Raymond	1,000,000	—	—	1,000,000
Ho King Fung, Eric	1,000,000	—	—	1,000,000
Employees				
Employees	56,500,000	—	—	56,500,000
Total	68,000,000	—	—	68,000,000

Save as disclosed above, no option has been granted under the Share Option Scheme during the six months ended 30 June 2013. No option has been cancelled or lapsed during the six months ended 30 June 2013.

Compliance with the Corporate Governance Code

Save as disclosed below, the Company has applied the principles and complied with the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") (the "Code") during the six months ended 30 June 2013.

Code provision A.2.1 requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Currently, the roles of Chairman and President of the Company are performed by Mr. Se Hok Pan. Mr. Se Hok Pan is a co-founder of the Group and was appointed director of the Company on 27 July 2007. Mr. Se is responsible for formulating overall strategic planning, business development and management of the Company and is instrumental to the Group's growth and business expansion since its establishment in 2004. The Company believes that the combination of the roles of Chairman and President can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business development opportunities efficiently. The Company believes that through the supervision of the Board and its independent non-executive directors, sufficient safeguards are in place to ensure balance of powers within the Board so that the interests of the shareholders are adequately and fairly represented.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as its code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the six months ended 30 June 2013.

Audit Committee

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the Code. As at the date of this report, the Audit Committee consists of the following members:

Independent non-executive Directors

Mr. Chan Siu Wing, Raymond *(Chairman)*
Mr. Zhang Sen Lin
Mr. Ho King Fung, Eric

The primary responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Company's financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board. The Audit Committee has reviewed and discussed the interim results for the six months ended 30 June 2013.

Remuneration Committee

The Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with the Code. As at the date of this report, the Remuneration Committee consists of the following members:

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur *(Chairman)*
Mr. Zhang Sen Lin
Mr. Ho King Fung, Eric

The Remuneration Committee has adopted the model described in code provision B.1.2(c)(ii) of the Code in its terms of reference. It will determine, with delegated responsibilities, the remuneration packages of individual executive Directors and senior management. The other principal responsibilities of the Remuneration Committee include (i) making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, (ii) making recommendations to the Board on the remuneration of the nonexecutive directors; and (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

Nomination Committee

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference in compliance with the Code. As at the date of this report, the Nomination Committee consists of the following members:

Executive Director

Mr. Se Hok Pan *(Chairman)*

Independent Non-executive Directors

Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

The principal responsibilities of the Nomination Committee include, among other things, reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive directors.

Corporate Governance Committee

The Company has established a corporate governance committee (the "Corporate Governance Committee") with written terms of reference in compliance with the Code. As at the date of this report, the Corporate Governance Committee consists of the following members:

Executive Director

Mr. Se Hok Pan *(Chairman)*

Non-executive Director

Mr. Teoh Chun Ming

Independent Non-executive Director

Mr. Ho King Fung, Eric

The primary responsibilities of the Corporate Governance Committee include, among other things, developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board, and reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the Code.

Purchases, Sale and Redemption of Listed Securities

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Board does not recommend any payment of interim dividend for the six months ended 30 June 2013.

Change in Directors' Biographical Details Under Rule 13.51B(1) of the Listing Rules

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in directors' biographical details of the Company since the date of the Annual Report 2012 of the Company are as follows:

Prof. Li Kwok Cheung Arthur, an independent non-executive director of the Company, resigned as an independent non-executive director of The Wharf (Holdings) Limited (Stock Code: 4), whose shares are listed on the Stock Exchange, on 16 August 2013.

Mr. Ho King Fung, Eric, an independent non-executive director of the Company, was appointed as a non-executive director of AGTech Holdings Limited (Stock Code: 8279), whose shares are listed on the GEM Board of the Stock Exchange, on 23 May 2013. Mr. Ho has been re-designated as the non-executive chairman of the EPI (Holdings) Limited (Stock Code: 689) with effect from 30 July 2013.

Save as disclosed above, there is no other change in the directors' biographical details which is required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules since the date of the Annual Report 2012 of the Company.

Review report to the board of directors of Nature Flooring Holding Company Limited
(formerly known as China Flooring Holding Company Limited)
(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 34 to 74 which comprises the consolidated statement of financial position of Nature Flooring Holding Company Limited (the "Company") and its subsidiaries (together "the Group") as of 30 June 2013 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *"Interim financial reporting"*, adopted by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *"Review of interim financial information performed by the independent auditor of the entity"*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *"Interim financial reporting"*.

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

30 August 2013

CONSOLIDATED STATEMENT OF PROFIT OR LOSS — UNAUDITED

		Six months ended 30 June	
		2013	2012
	Note	**RMB'000**	RMB'000
Turnover	3	**566,977**	506,333
Cost of sales		**(398,089)**	(344,314)
Gross profit		**168,888**	162,019
Other net income	4(a)	**62,635**	10,603
Net change in fair value of biological assets	9	**(73,359)**	4,581
Distribution costs		**(86,836)**	(84,978)
Administrative expenses		**(108,040)**	(74,468)
Other operating expenses	4(b)	**(7,635)**	(9,970)
(Loss)/profit from operations		**(44,347)**	7,787
Finance income		**5,190**	4,965
Finance costs		**(8,213)**	(3,117)
Net finance (cost)/income	5(a)	**(3,023)**	1,848
(Loss)/profit before taxation	5	**(47,370)**	9,635
Income tax	6(a)	**(7,878)**	(8,606)
(Loss)/profit for the period		**(55,248)**	1,029
Attributable to:			
Equity shareholders of the Company		**(55,248)**	3,523
Non-controlling interests		**—**	(2,494)
(Loss)/profit for the period		**(55,248)**	1,029
(Loss)/earnings per share (RMB):			
Basic	7	**(0.037)**	0.002
Diluted	7	**(0.037)**	0.002

The notes on pages 41 to 74 form part of this interim financial report.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME — UNAUDITED

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
(Loss)/profit for the period	**(55,248)**	1,029
Other comprehensive (loss)/income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of entities not using RMB as functional currency	**(14,704)**	5,593
Total comprehensive (loss)/income for the period	**(69,952)**	6,622
Attributable to:		
Equity shareholders of the Company	**(69,952)**	9,116
Non-controlling interests	**—**	(2,494)
Total comprehensive (loss)/income for the period	**(69,952)**	6,622

The notes on pages 41 to 74 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED

	Note	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment	8	**479,191**	458,399
Intangible assets		**17,308**	17,901
Lease prepayments		**57,566**	64,650
Biological assets	9	**400,645**	479,247
Interest in joint venture	10	**5,000**	—
Investments in unlisted equity securities	11	**5,353**	14,470
Deposits, prepayments and other receivables		**46,337**	37,560
Deferred tax assets	6(d)	**35,847**	22,541
		1,047,247	1,094,768
Current assets			
Inventories	12	**406,020**	380,531
Trade and bills receivables	13	**650,490**	671,788
Deposits, prepayments and other receivables		**183,268**	108,776
Pledged deposits	14	**53,250**	13,528
Cash and cash equivalents	15	**742,339**	815,706
		2,035,367	1,990,329
Current liabilities			
Trade and bills payables	16	**151,000**	137,732
Deposits received, accruals and other payables		**152,659**	192,627
Loans and borrowings	17	**52,849**	155,589
Income tax payables	6(c)	**16,332**	9,270
		372,840	495,218
Net current assets		**1,662,527**	1,495,111
Total assets less current liabilities		**2,709,774**	2,589,879

The notes on pages 41 to 74 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED (CONTINUED)

	Note	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Non-current liabilities			
Loans and borrowings	17	**232,408**	16,349
Deferred tax liabilities	6(d)	**7,471**	11,370
Total non-current liabilities		**239,879**	27,719
NET ASSETS		**2,469,895**	2,562,160
CAPITAL AND RESERVES			
Share capital	19(b)	**9,680**	9,680
Reserves		**2,460,215**	2,552,480
TOTAL EQUITY		**2,469,895**	2,562,160

The notes on pages 41 to 74 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	Attributable to equity shareholders of the Company								
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Foreign currency translation reserves RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2012	9,848	1,388,806	148,687	(25,175)	22,322	964,208	2,508,696	3,736	2,512,432
Changes in equity for the six months ended 30 June 2012									
Profit for the period	—	—	—	—	—	3,523	3,523	(2,494)	1,029
Other comprehensive income	—	—	—	5,593	—	—	5,593	—	5,593
Total comprehensive income	—	—	—	5,593	—	3,523	9,116	(2,494)	6,622
Dividend approved in respect of the previous year (note 20)	—	—	—	—	—	(52,820)	(52,820)	—	(52,820)
Purchase of own shares									
— par value paid	(20)	—	—	—	—	—	(20)	—	(20)
— premium paid	—	(2,997)	—	—	—	—	(2,997)	—	(2,997)
Equity settled share-based payment transactions (note 18)	—	—	—	—	7,596	—	7,596	—	7,596
Share option lapsed during the period	—	—	—	—	(1,432)	1,432	—	—	—
As at 30 June 2012 and 1 July 2012	9,828	1,385,809	148,687	(19,582)	28,486	916,343	2,469,571	1,242	2,470,813
Changes in equity for the six months ended 31 December 2012									
Profit for the period	—	—	—	—	—	119,188	119,188	(1,242)	117,946
Other comprehensive loss	—	—	—	(3,922)	—	—	(3,922)	—	(3,922)
Total comprehensive income	—	—	—	(3,922)	—	119,188	115,266	(1,242)	114,024
Purchase of own shares									
— par value paid	(148)	—	—	—	—	—	(148)	—	(148)
— premium paid	—	(25,022)	—	—	—	—	(25,022)	—	(25,022)
Transfer to statutory surplus reserve	—	—	10,319	—	—	(10,319)	—	—	—
Equity settled share-based payment transactions	—	—	—	—	2,493	—	2,493	—	2,493
Share option lapsed during the period	—	—	—	—	(220)	220	—	—	—
As at 31 December 2012	9,680	1,360,787	159,006	(23,504)	30,759	1,025,432	2,562,160	—	2,562,160

The notes on pages 41 to 74 form part of this interim financial report.

	Attributable to equity shareholders of the Company								
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Foreign currency translation reserves RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2013	9,680	1,360,787	159,006	(23,504)	30,759	1,025,432	2,562,160	—	2,562,160
Changes in equity for the six months ended 30 June 2013									
Loss for the period	—	—	—	—	—	(55,248)	(55,248)	—	(55,248)
Other comprehensive loss	—	—	—	(14,704)	—	—	(14,704)	—	(14,704)
Total comprehensive loss	—	—	—	(14,704)	—	(55,248)	(69,952)	—	(69,952)
Dividend approved in respect of the previous year (note 20)	—	(28,837)	—	—	—	—	(28,837)	—	(28,837)
Equity settled share-based payment transactions (note 18)	—	—	—	—	6,524	—	6,524	—	6,524
Share option lapsed during the period	—	—	—	—	(104)	104	—	—	—
As at 30 June 2013	9,680	1,331,950	159,006	(38,208)	37,179	970,288	2,469,895	—	2,469,895

The notes on pages 41 to 74 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT — UNAUDITED

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Cash (used in)/generated from operations		**(4,613)**	105,326
Income tax paid		**(17,861)**	(14,007)
Net cash (used in)/generated from operating activities		**(22,474)**	91,319
Net cash used in investing activities		**(35,105)**	(77,500)
Net cash used in financing activities		**(11,677)**	(178,010)
Net decrease in cash and cash equivalents		**(69,256)**	(164,191)
Cash and cash equivalents as at 1 January	15	**815,706**	865,638
Effect of foreign exchange rate changes		**(4,111)**	2,307
Cash and cash equivalents as at 30 June	15	**742,339**	703,754

The notes on pages 41 to 74 form part of this interim financial report.

1 Basis of Preparation

(a) This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting,* adopted by the International Accounting Standards Board ("IASB"). It was authorised for issue on 30 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual consolidated financial statements of the Company for the year ended 31 December 2012, except as those disclosed in note 1(b) and 1(c) which are the new accounting policies adopted in the 2013 interim financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2012. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. It has also been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, "*Review of interim financial information performed by the independent auditor of the entity*", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 32 to 33.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2013.

1 Basis of Preparation (Continued)

(b) Convertible loan

At initial recognition the derivative component of the convertible loans is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible loan are allocated to the liability and derivative component in proportion to the allocation of proceeds.

The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The fair value of the derivative component is remeasured at the end of the reporting date. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the loan is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the loan is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(c) Joint venture

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

Unrealised profits and losses resulting from transactions between the Group and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

2 Changes in Accounting Policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

- Amendments to IAS 1, *Presentation of financial statements* — Presentation of items of other comprehensive income
- IFRS 10, *Consolidated financial statements*
- IFRS 11, *Joint arrangements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*

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

Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

IFRS 10, Consolidated financial statements

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements relating to the preparation of consolidated financial statements and SIC 12 Consolidation — Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

2 Changes in Accounting Policies (Continued)

IFRS 11, Joint arrangements

IFRS 11, which replaces IAS 31, *Interests in joint ventures*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under IFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under IFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

IFRS 12, Disclosure of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries and joint arrangements. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

IFRS 13, Fair value measurement

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 21. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

3 Turnover and Segment Reporting

(a) Turnover

The principal activities of the Group are manufacturing and sale of wood products, trademark and distribution network usage fees and trading of timber and wood products.

Turnover represents the sales value of goods supplied to customers and income from trademark and distribution network usage fees. Revenue excludes value added tax or other sales taxes and is after deduction of any returns, trade discounts and volume rebates. The amount of each significant category of revenue recognised in turnover is as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Manufacturing and sale of wood products	**378,379**	374,595
Trademark and distribution network usage fees	**86,561**	71,608
Trading of timber and wood products	**102,037**	60,130
	566,977	506,333

There is a seasonal factor in the sales of the Group's products. In general, sales in the second half of the year will be better than the first half.

(b) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "profit from operations". To arrive at "profit from operations", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs and net change in fair value of biological assets.

3 Turnover and Segment Reporting (Continued)

(b) Segment results, assets and liabilities (Continued)

Segment assets and liabilities are not regularly reported to the Group's chief operating decision maker and therefore information of reportable segment assets and liabilities are not presented in the consolidated financial statements.

	Manufacturing and sale of wood products		Trademark and distribution network usage fees		Trading of timber and wood products		Total	
	Six months ended 30 June							
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**378,379**	374,595	**86,561**	71,608	**102,037**	60,130	**566,977**	506,333
Inter-segment revenue	**5,274**	189	**—**	—	**14,586**	12,769	**19,860**	12,958
Reportable segment revenue	**383,653**	374,784	**86,561**	71,608	**116,623**	72,899	**586,837**	519,291
Reportable segment (loss)/profit	**(9,998)**	9,132	**22,950**	18,361	**(4,215)**	(3,482)	**8,737**	24,011
Depreciation and amortisation for the period	**(11,025)**	(15,608)	**—**	—	**(2,297)**	(970)	**(13,322)**	(16,578)
Net impairment losses for trade receivables (recognised)/ reversed during the period	**(31,205)**	(12,883)	**—**	—	**2,436**	—	**(28,769)**	(12,883)

3 Turnover and Segment Reporting (Continued)

(c) Reconciliations of reportable segment revenues and profits

	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Revenue		
Reportable segment revenue	**586,837**	519,291
Elimination of inter-segment revenue	**(19,860)**	(12,958)
Consolidated revenue	**566,977**	506,333
Profit		
Reportable segment profit	**8,737**	24,011
Elimination of inter-segment results	**(2,612)**	(1,014)
Reportable segment profit derived from external customers	**6,125**	22,997
Other net income	**62,635**	10,603
Net change in fair value of biological assets	**(73,359)**	4,581
Other operating expenses	**(7,635)**	(9,970)
Depreciation and amortisation	**(15,027)**	(5,068)
Net finance (cost)/income	**(3,023)**	1,848
Unallocated head office and corporate expenses	**(17,086)**	(15,356)
Consolidated (loss)/profit before taxation	**(47,370)**	9,635

(d) Geographic information

Analysis of the Group's turnover by geographical market has not been presented as substantially all the Group's turnover is generated in the PRC, Hong Kong and Macau (together the "PRC Region").

The following table sets out information about the geographical location of the Group's property, plant and equipment, lease prepayments, intangible assets and biological assets ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, lease prepayments and biological assets, and the location of the operation to which they are allocated, in the case of intangible assets.

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Specified non-current assets		
The PRC Region	**737,353**	730,756
Peru	**217,323**	289,406
USA	**34**	35
	954,710	1,020,197

4 Other Net Income/Other Operating Expenses

(a) Other net income

	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Government grants	**9,958**	9,931
Net gain on the resumption of land and assets of Nature (Zhangjiagang) Wood Industry Co.,Ltd ("Nature Zhangjiagang") (i)	**51,394**	—
Net gain on forward exchange transactions (ii)	**100**	200
Others	**1,183**	472
	62,635	10,603

(b) Other operating expenses

	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Change in fair value of forward foreign exchange transactions (ii)	**—**	1,748
Net loss on disposal of property, plant and equipment	**249**	596
Impairment loss for investments in unlisted equity securities (note 11)	**4,867**	4,997
Donations	**1,043**	58
Loss on disposal of an unlisted equity security (note 11)	**1,088**	—
Others	**388**	2,571
	7,635	9,970

(i) On 6 December 2012, Nature Zhangjiagang entered into a compensation agreement (the "Compensation Agreement") with Jingang County Government and Zhangjiagang Chengxin Relocation Co., Limited. Pursuant to the Compensation Agreement, Jingang County Government made a compensation of RMB135,029,000 to Nature Zhangjiagang in respect of the loss on assets. Nature Zhangjiagang has also entered into a supplementary agreement (the "Supplementary Agreement") with Jingang County Government for an additional compensation of RMB15,000,000. The aggregate compensation payments under the Compensation Agreement and the Supplementary Agreement amounted to RMB150,029,000. As at 31 December 2012, the keys to the buildings erected on the land has not yet been delivered to local government but a compensation of RMB30,000,000 was received by Nature Zhangjiagang and recognised as deferred income.

4 Other Net Income/Other Operating Expenses (Continued)

(b) Other operating expenses (Continued)

(i) (Continued)

During the six months ended 30 June 2013, the remaining compensation of RMB120,029,000 was received upon the delivery of the keys to the buildings erected on the land. After deduction of net loss on disposal of assets of RMB98,635,000, the gain of RMB51,394,000 was recognised by the Group in the profit or loss during the six months ended 30 June 2013.

(ii) The Group entered into a forward exchange contract with aggregate notional contract amount of United State Dollar ("USD") 20,000,000 during the six months ended 30 June 2012. The forward exchange contract consisted of 24 foreign exchange transactions and the outstanding forward exchange transactions have maturities of less than 18 months as at 31 December 2012. The forward exchange contract was terminated in February 2013 and a gain of RMB100,000 was recognised in profit or loss for the six months ended 30 June 2013.

5 (Loss)/Profit Before Taxation

(Loss)/profit before taxation is arrived at after (crediting)/charging:

(a) Finance income and finance costs

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Interest income on bank deposits	**(4,509)**	(2,179)
Foreign exchange gain	**—**	(2,786)
Change in fair value of derivative component of convertible loan (note 17 (a))	**(681)**	—
Finance income	**(5,190)**	(4,965)
Interest expense on bank loans	**1,692**	3,117
Foreign exchange loss	**6,521**	—
Finance costs	**8,213**	3,117
Net finance cost/(income) recognised in profit or loss	**3,023**	(1,848)

5 (Loss)/Profit Before Taxation (Continued)

(b) Other items

	Note	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Cost of inventories	12	**396,136**	341,609
Net impairment loss recognised for receivables	13(b)	**28,769**	12,883
Impairment loss for investments in unlisted equity securities	11	**4,867**	4,997
Depreciation		**26,489**	20,218
Amortisation		**1,860**	1,428
Operating lease charges		**6,787**	9,067

6 Income Tax

(a) Income tax in the consolidated income statement represents:

	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Current tax		
Provision for PRC income tax	**24,937**	10,276
Provision for income tax from subsidiaries in other jurisdictions	**—**	2
	24,937	10,278
Deferred tax		
Origination and reversal of temporary differences	**(17,059)**	(1,672)
	7,878	8,606

6 Income Tax (Continued)

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
(Loss)/profit before taxation	**(47,370)**	9,635
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	**7,806**	2,409
Tax effect of non-deductible expenses	**855**	3,413
Tax effect of non-taxable income	**(560)**	(611)
Tax effect of un-recognised tax losses	**6,476**	4,582
Tax effect of un-recognised temporary differences	**697**	466
Effect of tax concessions (ii)	**(7,396)**	(5,679)
Under-provision in prior year	**—**	1,195
Tax effect of withholding tax on distributable profits (iii)	**—**	2,831
Income tax expense	**7,878**	8,606

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

No provision for United States Profits Tax was made since the Group had no material assessable profits subject to United States Profits Tax for the six months ended 30 June 2013 and the year ended 31 December 2012.

No provision for Hong Kong Profits Tax for the six months ended 30 June 2013 and the year ended 31 December 2012 as the Group had no assessable profits subject to Hong Kong Profits Tax.

The Group's subsidiaries incorporated in Macau were subject to income tax at progressive rates from 9% to 12% for profits higher than Macau Pataca 200,000 on an annual basis for the six months ended 30 June 2013 and the year ended 31 December 2012.

The Group's subsidiaries incorporated in Peru were subject to income tax rates of 5% for the six months ended 30 June 2013 and the year ended 31 December 2012.

The PRC's statutory income tax rate is 25% for the six months ended 30 June 2013 and the year ended 31 December 2012.

6 Income Tax (Continued)

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates (Continued):

(ii) Yingyi-Nature (Kunshan) Wood Industry Co., Limited ("Yingyi-Nature") is entitled to a tax holiday of two-year full exemption followed by three-year 50% reduction in the income tax rate. The first year of full exemption was 2008. Accordingly, Yingyi-Nature is subject to income tax at 12.5% from 2010 to 2012.

(iii) According to the CIT Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding income tax at 10% for profits earned since 1 January 2008, unless reduced by tax treaties or arrangements. Pursuant to the Sino-Hong Kong Double Tax Arrangement and Sino-Macau Double Tax Arrangement and the related regulations, a qualified Hong Kong or Macau tax resident is eligible for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong or Macau tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. The Group has adopted the 5% withholding tax rate for PRC withholding tax purposes for the profits distribution made in the six months ended 30 June 2012.

Pursuant to the Corporate Income Tax Law of Peru, overseas investors of the domiciled legal entities shall be liable for withholding income tax at 4.1%.

As a part of the continuing evaluation of the funding needs of its subsidiaries, the directors have determined that the undistributed profits of the Group's subsidiaries will not be distributed in the foreseeable future. As such, no deferred tax liabilities in this regard have been provided as at 30 June 2013 (31 December 2012: Nil).

The amounts of undistributed profit of the Group's subsidiaries are set out below:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Profits earned by PRC subsidiaries on or after 1 January 2008	**1,107,267**	1,008,422
Others	**98,494**	121,788
Total	**1,205,761**	1,130,210

6 Income Tax (Continued)

(c) Income tax in the consolidated statement of financial position represents:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
PRC income tax payable	**15,749**	8,346
Income tax payable from subsidiaries in other jurisdictions	**583**	924
	16,332	9,270

(d) Deferred tax recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the period are as follows:

	Write-downs of inventories RMB'000	Impairment of receivables RMB'000	Unused tax losses RMB'000	Unrealised profit in inventories RMB'000	Impairment of investments in unlisted equity securities RMB'000	Capitalised borrowing cost RMB'000	Withholding tax on undistributed profits of subsidiaries RMB'000	Change in fair value of biological assets RMB'000	Total RMB'000
As at 1 January 2012	(2,795)	(2,247)	(3,934)	(2,043)	—	620	50,078	3,567	43,246
(Credited)/charged to profit or loss	(109)	(3,524)	(442)	243	(1,249)	(12)	2,848	573	(1,672)
Charged to foreign currency translation reserve	—	—	—	—	—	—	—	15	15
As at 30 June 2012	(2,904)	(5,771)	(4,376)	(1,800)	(1,249)	608	52,926	4,155	41,589
(Credited)/charged to profit or loss	(1,006)	1,309	(5,593)	(1,155)	4	(22)	(52,926)	6,645	(52,744)
Credited to foreign currency translation reserve	—	—	—	—	—	—	—	(16)	(16)
As at 31 December 2012	**(3,910)**	**(4,462)**	**(9,969)**	**(2,955)**	**(1,245)**	**586**	**—**	**10,784**	**(11,171)**
As at 1 January 2013	**(3,910)**	**(4,462)**	**(9,969)**	**(2,955)**	**(1,245)**	**586**	**—**	**10,784**	**(11,171)**
Credited to profit or loss	**372**	**(6,949)**	**(2,319)**	**(3,193)**	**(1,217)**	**(22)**	**—**	**(3,731)**	**(17,059)**
Credited to foreign currency translation reserve	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(146)**	**(146)**
As at 30 June 2013	**(3,538)**	**(11,411)**	**(12,288)**	**(6,148)**	**(2,462)**	**564**	**—**	**6,907**	**(28,376)**

6 Income Tax (Continued)

(d) Deferred tax recognised: (Continued)

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Deferred tax assets recognised on the consolidated statement of financial position	35,847	22,541
Deferred tax liabilities recognised on the consolidated statement of financial position	(7,471)	(11,370)
	28,376	11,171

(e) Amounts of deductible temporary differences and unused tax losses for which no deferred tax asset is recognised

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Deductible temporary differences	4,455	—
Unused tax losses	118,435	75,445
	122,890	75,445

No deferred tax assets have been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the related benefits. As at 30 June 2013, unused tax losses of RMB429,000, RMB5,467,000, RMB3,252,000, RMB9,340,000, RMB52,752,000 and RMB23,809,000 (31 December 2012: RMB429,000, RMB5,467,000, RMB3,252,000, RMB9,340,000, and RMB52,897,000), if unused, will expire by 2013, 2014, 2015, 2016, 2017 and 2018 (31 December 2012: 2013, 2014, 2015, 2016, and 2017), respectively. Further, unused tax losses of RMB18,997,000 (31 December 2012: RMB4,060,000) do not expire under current tax legislation.

7 (Loss)/Earnings Per Share

(a) Basic (loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue, calculated as follows:

(i) Loss attributable to ordinary equity shareholders of the Company of RMB55,248,000 (2012: profit of RMB3,523,000).

(ii) Weighted average number of ordinary shares

	Six months ended 30 June	
	2013	2012
	'000	'000
Issued ordinary shares at 1 January	**1,481,824**	1,508,265
Effect of repurchase and cancellation of own shares (note 19(b))	**—**	(195)
Weighted average number of ordinary shares at 30 June	**1,481,824**	1,508,070

(b) Diluted (loss)/earnings per share

The effects of the Company's share option plan and convertible loan is anti-dilutive for the six months ended 30 June 2013. The calculation of diluted earnings per share for the six months ended 30 June 2012 is based on the profit attributable to ordinary equity shareholders after adjusting for the effects of all dilutive potential shares under the Company's share option plan.

The calculation of diluted (loss)/earnings per share is based on the following data:

(i) Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2013	2012
	'000	'000
Weighted average number of ordinary shares as at 30 June	**1,481,824**	1,508,070
Effect of deemed issue of shares under the Company's share option plan for nil consideration (note 18)	**—**	46
Weighted average number of ordinary shares (diluted) as at 30 June	**1,481,824**	1,508,116

8 Property, Plant and Equipment

	Land, buildings & plant RMB'000	Leasehold improvement RMB'000	Machinery & equipment RMB'000	Motor vehicles RMB'000	Office equipment & furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
As at 1 January 2013	206,395	13,933	289,851	26,800	12,475	25,659	575,113
Additions	5,577	313	29,379	3,198	976	68,964	108,407
Transfer from construction in progress	5,543	—	1,227	—	399	(7,169)	—
Exchange adjustments	(1,962)	—	(3,094)	(1,257)	(80)	(198)	(6,591)
Disposals	(26,874)	—	(31,533)	(9,317)	(503)	—	(68,227)
As at 30 June 2013	188,679	14,246	285,830	19,424	13,267	87,256	608,702
Accumulated depreciation:							
As at 1 January 2013	(19,683)	(1,874)	(77,873)	(11,282)	(6,002)	—	(116,714)
Charge for the period	(3,904)	(6,375)	(13,744)	(1,118)	(1,348)	—	(26,489)
Exchange adjustments	48	—	384	427	21	—	880
Disposals	2,708	—	7,187	2,551	366	—	12,812
As at 30 June 2013	(20,831)	(8,249)	(84,046)	(9,422)	(6,963)	—	(129,511)
Carrying amounts:							
As at 30 June 2013	167,848	5,997	201,784	10,002	6,304	87,256	479,191
As at 31 December 2012	186,712	12,059	211,978	15,518	6,473	25,659	458,399

9 Biological Assets

	Standing timber RMB'000
As at 31 December 2012 and 1 January 2013	479,247
Change in fair value less estimated costs to sell	(73,359)
Harvested timber transferred to inventories	(542)
Effect of movements in exchange rate	(4,701)
As at 30 June 2013	400,645

As at 30 June 2013, the Group's biological assets represent the following concession rights:

- harvest standing timber in 46,347 hectares of natural forest in Peru Yurimaguas for 40 years up to 2045;
- harvest standing timber in 90,740 hectares of natural forest in Peru Sepahua for 40 years up to 2042;
- harvest standing timber in 4,445 hectares of natural forest in Yunnan Ninglang for a period through the year 2060 or 2078; and
- harvest standing timber in 3,718 hectares of natural forest in Yunnan Yingjiang for a period through the year 2041 or 2042.

During the six months ended 30 June 2013, 6,979 and 1,161 cubic meters of timbers in Peru Yurimaguas and Yunnan Yingjiang were harvested (2012: 23,000 cubic meters and Nil).

The fair values of the standing timber as at 30 June 2013 and 31 December 2012 were valued by an independent valuation firm engaged by the Group, Pöyry (Beijing) Consulting Company Limited, Shanghai Branch ("Pöyry"). Pöyry applied the net present value approach whereby projected future net cash flows, based on the international timber log prices, were discounted according to the harvest plans for the standing timber to provide a current market value of the biological assets. The discount rates adopted for the Peru Yurimaguas, Peru Sepahua, Yunnan Ninglang and Yunnan Yingjiang forest were 12.0%, 15%, 11.5% and 11.5%, respectively.

The change in fair value during the six months ended 30 June 2013 was mainly due to the change of assumptions such as reduction in timber log prices, harvesting plan and increase in costs of harvesting.

10 Interest in Joint Venture

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Unlisted shares	**5,000**	—

Details of the Group's interest in the jointly controlled entity are as follows:

Name of company	**Place and date of establishment**	**Authorised capital/paid-up capital**	**Direct equity interest**	**Principal activities**
Foshan Shunde Nature Investment Management Co., Ltd. 佛山市順德區大自然投資管理有限公司*	the PRC 30 January 2013	RMB10,000,000/ RMB10,000,000	50%	Dormant

* *The English translation of these companies' names is for reference only.*

11 Investments in Unlisted Equity Securities

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Unlisted shares, at cost (i)	15,200	19,450
Less: impairment loss (ii)	(9,847)	(4,980)
	5,353	14,470

As at 30 June 2013, the Group had direct equity interest in the following unlisted PRC incorporated entities:

Name of company	Place and date of establishment	Authorised capital/paid-up capital	Direct equity interest	Principal activities
Liaoning Tai'an Yingfu Xinsheng Flooring Co., Ltd. 遼寧台安盈福新盛地板有限公司*	the PRC 14 July 2010	RMB40,000,000/ RMB40,000,000	19%	Manufacturing and trading of wood flooring
Hubei Xiangfan Yingfu Xinsheng Flooring Co., Ltd. 湖北襄樊盈福新盛地板有限公司*	the PRC 15 July 2010	RMB40,000,000/ RMB40,000,000	19%	Manufacturing and trading of wood flooring

* *The English translation of these companies' names is for reference only.*

(i) The Group disposed of Lejia Chengpin (Beijing) Technology Co., Ltd. (樂嘉誠品(北京)科技有限公司) during six months ended 30 June 2013 with a loss on disposal of RMB1,088,000 (note 4(b)).

(ii) During the six months ended 30 June 2013, impairment loss on investments in unlisted equity securities was recognised as evidences were available from internal reporting that indicated that the economic performances of these investees are, or will be, worse than expected. The impairment loss for investments in unlisted equity securities was measured as the difference between the carrying amount of the investment cost and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

12 Inventories

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Raw materials	**72,013**	110,475
Work in progress	**64,230**	41,236
Finished goods	**247,882**	207,747
Spare parts and consumables	**21,895**	21,073
	406,020	380,531

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

	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Carrying amount of inventories sold	**393,508**	340,803
Write-downs of inventories	**2,628**	806
	396,136	341,609

13 Trade and Bills Receivables

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade debtors	**575,103**	561,939
Bills receivable (note)	**122,760**	128,853
Less: allowance for doubtful debts (note 13(b))	**(47,373)**	(19,004)
	650,490	671,788

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

Note: As at 30 June 2013, no bills receivables have been pledged to banks (31 December 2012: RMB110,577,000 (note 17)).

13 Trade and Bills Receivables (Continued)

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Within 1 month	**203,357**	233,755
1 to 3 months	**177,204**	155,421
3 to 6 months	**51,553**	105,032
6 to 12 months	**159,885**	105,926
More than 12 months	**58,491**	71,654
	650,490	671,788

Credit terms granted by the Group to customers generally range from 30 to 180 days.

(b) Impairment loss of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable 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 debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the period/year, including both specific and collective loss components, is as follows:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
As at 1 January	**19,004**	11,578
Impairment loss recognised during the period/year	**42,447**	12,594
Uncollectible amounts written off	**(400)**	—
Reversal of impairment loss recognised during the period/year	**(13,678)**	(5,168)
As at 30 June/31 December	**47,373**	19,004

13 Trade and Bills Receivables (Continued)

(b) Impairment loss of trade debtors and bills receivable (Continued)

As at 30 June 2013, the Group's trade receivables of RMB63,380,000 (31 December 2012: RMB27,030,000) were individually determined to be impaired. The individually impaired receivables related to customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB47,373,000 as at 30 June 2013 were recognised (31 December 2012: RMB19,004,000).

14 Pledged Deposits

As at 30 June 2013, the deposits had been placed with banks as securities for the followings:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Loans and borrowings (note 17)	**14,271**	11,247
Convertible loan (note 17)	**30,893**	—
Other	**8,086**	2,281
	53,250	13,528

15 Cash and Cash Equivalents

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Cash in hand	**204**	216
Cash at banks	**742,135**	815,490
Cash and cash equivalents	**742,339**	815,706

16 Trade and Bills Payables

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Trade payables	**132,150**	103,032
Bills payable	**18,850**	34,700
	151,000	137,732

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable, based on invoice date, is as follows:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Due within 1 month or on demand	**94,548**	63,931
Due after 1 month but within 3 months	**25,883**	23,639
Due after 3 months but within 6 months	**16,955**	38,037
Due after 6 months but within 12 months	**13,614**	12,125
	151,000	137,732

17 Loans and Borrowings

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Bank loans	**16,101**	28,663
Convertible loan (note 17(a))	**55,864**	—
Other loans	**213,292**	143,275
	285,257	171,938

17 Loans and Borrowings (Continued)

An analysis of current and non-current loans and borrowings is as follows:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Current:		
— secured (note (i))	**36,748**	126,926
— unsecured	**16,101**	28,663
	52,849	155,589
Non-current:		
— secured (note (i))	**232,408**	16,349
	285,257	171,938

All of the non-current loans are carried at amortised cost. As at 30 June 2013, none of the non-current loans and borrowings is expected to be settled within one year.

(i) At the end of the reporting period, secured loans and borrowings of RMB27,931,000 (31 December 2012: RMB143,275,000) were secured by the following assets of the Group:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Pledged deposits (note 14)	**45,164**	11,247
Property, plant and equipment (note 8)	**79,412**	84,908
Lease prepayments	**21,308**	21,371
Bills receivable (note 13)	**—**	110,577
	145,884	228,103

17 Loans and Borrowings (Continued)

(i) (Continued)

The convertible loan of RMB55,864,000 and a loan of RMB185,361,000 (equivalent to USD30,000,000) (31 December 2012: Nil), included in secured loans and borrowings as at 30 June 2013, were secured by the following items:

- the trademark of "Nature" and "大自然";
- a personal guarantee of USD10,000,000 (equivalent to RMB61,787,000) issued by Mr. Se Hok Pan, the Group's controlling shareholder; and
- the Company's equity interests in two operating subsidiaries, namely Guangdong Yingran Wood Industry Co., Limited and Yingyi-Nature (Kunshan) Wood Industry Co., Limited. The carrying amount of these operating subsidiaries recorded under the Company's statement of financial position as at 30 June 2013 was RMB66,625,000 and RMB52,417,000 respectively.

(ii) As at 30 June 2013, loans and borrowings of RMB24,396,000 (31 December 2012: nil) are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants.

As at 30 June 2013, none of the covenants relating to loans and borrowings had been breached.

(iii) The loan facilities, amounting to RMB460,686,000 as at 30 June 2013 (31 December 2012: RMB398,692,000), were utilised to the extent of RMB229,393,000 (2012: RMB171,938,000) as at 30 June 2013.

(iv) Pursuant to a resolution passed by the board of directors on 30 August 2013, the Company intends to repay the term loan of USD30,000,000 (equivalent to RMB185,361,000) and the convertible loan of USD10,000,000 (equivalent to RMB61,787,000) as soon as possible but it is subject to the agreement with the borrower.

17 Loans and Borrowings (Continued)

(a) Convertible loan

On 15 January 2013, the Company entered into a loan agreement ("Loan Agreement") with an independent third party for borrowing of a convertible loan of up to USD10,000,000. The net proceed was received on 31 May 2013. The movement of the convertible loan during the six months ended 30 June 2013 is set out below:

The movement of the convertible loan during the six months ended 30 June 2013 is set out below:

	Host liability component RMB'000	**Derivative liability** RMB'000 (note)	**Total** RMB'000
At 1 January 2013	—	—	—
Issuance of convertible loan	58,466	3,324	61,790
Amortisation	(2,602)	—	(2,602)
Change in fair value	—	(681)	(681)
Effect of movement in exchange rate	—	9	9
At 30 June 2013	55,864	2,652	58,516

Note: The derivative liability is recorded under deposits received, accruals and other payables.

(i) Conversion price:

The principal amount of the convertible loan is convertible into ordinary shares of the Company, at a conversion price of Hong Kong Dollar ("HKD") 2.95 per share, subject to customary adjustments to accommodate alteration of share capital, in accordance with the terms of the Loan Agreement.

(ii) Conversion period:

The convertible loan is convertible in whole or in part into ordinary shares of the Company at any time from the first disbursement of the convertible loan up to and including 15 June 2016.

(iii) Interest:

The outstanding principal of the convertible loan will bear interest at a rate representing the sum of (i) before 15 June 2016, 1% per annum, and thereafter, 5% per annum, and (ii) LIBOR for six months on the interest determination date for the relevant interest period. Interest period of the convertible loan shall be a period of six months commencing from 15 June and 15 December in each year and interest accrued during the relevant interest period shall be payable in arrears semi-annually on 15 June and 15 December in each year.

If the independent third party does not exercise its conversion right in respect of the entire convertible loan prior to the end of the conversion period, the Company shall pay, on the date of final repayment of the convertible loan, an additional interest on the convertible loan accruing at a rate which generates for the independent third party an internal rate of return of 12%.

17 Loans and Borrowings (Continued)

(a) Convertible loan (Continued)

(iv) Repayment:

The Company shall repay the convertible loan (or any portion thereof which shall not have been converted) in seven equal instalments at an interval of six months, commencing from 15 June 2016. The last instalment shall be repayable on 15 June 2019. The convertible loan is not repayable during the conversion period or once a conversion notice is issued by the independent third party. Any principal amount of the convertible loan repaid under the Loan Agreement may not be re-borrowed.

(v) Fair value of the derivative liability components:

The fair value of the derivative liability components were valued by using the binominal option pricing model. Major inputs used in the model are as follows:

	At 31 May 2013	**At 30 June 2013**
Share price	HKD1.51	HKD1.30
Fair value at measurement date	3,324,000	2,652,000
Expected volatility	52.94%	52.59%
Maturity date	15 June 2019	15 June 2019
Dividend yield	1.52%	1.77%
Risk-free interest rate	0.90%	1.29%

18 Share-based Payments

The analysis of the amount of share-based payments recognised as an expense and included in profit and loss is as follows:

		Six months ended 30 June	
		2013	2012
	Note	**RMB'000**	RMB'000
Share-based payment transactions			
— Pre-IPO share option scheme	(a)	**1,166**	2,327
— Post-IPO share option scheme	(b)	**5,358**	5,269
		6,524	7,596

18 Share-based Payments (Continued)

(a) Pre-IPO share option scheme

The Company adopted a share option scheme on 16 December 2008 (the "Pre-IPO Share Option Scheme"). On 17 December 2008, share options were granted under the Pre-IPO Share Option Scheme whereby the directors of the Company were authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at a consideration of HKD 1 (equivalent to RMB0.882 as at the date of grant). Each option entitles the option holders to subscribe one ordinary share of the Company (the "2008 Option").

Pursuant to the written resolution of the shareholders of the Company passed on 30 June 2010, share options were granted under the Pre-IPO Share Option Scheme on 1 July 2010, whereby the directors of the Company were authorised, at their discretion, to invite employees of the Group, to take up share options at a consideration of HKD1 (equivalent to RMB0.8714 at the date of grant). Each option entitles the option holders to subscribe one ordinary share of the Company (the "2010 Options").

The Pre-IPO Share Option Scheme was automatically terminated upon the Company's listing date on 26 May 2011. No further options shall be granted but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in force. The 2008 Options and 2010 Options granted and accepted prior to the termination but not yet exercised shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

(b) Post-IPO share option scheme

Pursuant to the written resolution of the shareholders of the Company passed on 3 May 2011, the Company conditionally adopted a new share option scheme (the "Post-IPO Share Option Scheme"), which shall be valid and effective for a period of ten years commencing on the Company's listing date on 26 May 2011.

Pursuant to the board minutes of the Company passed on 4 January 2012, 68,000,000 share options were granted under the Post-IPO Share Option Scheme on 4 January 2012, whereby the directors of the Company were authorised, at their discretion, to invite employees of the Group, to take up share options at a consideration of HKD1 (equivalent to RMB0.8111 at the date of grant). Each option entitles the option holders to subscribe to one ordinary share of the Company at an exercise price of HKD1.45.

The terms and conditions of the grants that existed during the period are as follows, whereby all options are settled by physical delivery of shares:

			Options granted		
Date granted	**Vesting period**	**Exercise period**	**Directors**	**Employees**	**Total**
			'000	'000	'000
4 January 2012	4 January 2012 to 4 January 2015	5 January 2015 to 4 January 2022	10,000	58,000	68,000

18 Share-based Payments (Continued)

(b) Post-IPO share option scheme (Continued)

Pursuant to the rules of the share option scheme, options will lapse when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement. In case of voluntary resignation, options will continue to be exercisable for such period as the board of directors of the Company may determine at its absolute discretion on the date of cessation of employment of such employee.

19 Share Capital

(a) Authorised:

	As at 30 June 2013 and 31 December 2012	
	Number of shares	**Nominal value of shares**
		USD'000
Ordinary shares of USD0.001 each	4,000,000,000	4,000

(b) Issued and fully paid:

	Ordinary shares		
	Number of shares	**Nominal value of fully paid shares**	**Nominal value of fully paid shares**
		USD'000	RMB'000
As at 1 January 2012	1,508,264,990	1,508	9,848
Repurchase and cancellation of own shares	(26,441,000)	(26)	(168)
As at 31 December 2012, 1 January 2013 and 30 June 2013	1,481,823,990	1,482	9,680

20 Dividends

No dividend has been proposed by the Company attributable to the six months ended 30 June 2013 and 2012.

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Final dividend for the previous years, approved and paid during the interim period	**28,837**	52,820

21 Fair Value Measurement of Financial Instruments

Financial liabilities measured at fair value

(i) Fair value hierarchy

	Fair value at 30 June 2013	Fair value measurements as at 30 June 2013 using significant observable inputs (Level 2)
	RMB'000	**RMB'000**
Recurring fair value measurement		
Financial liabilities:		
Derivative financial instruments:		
— Derivative component of the convertible loan	**2,652**	**2,652**

21 Fair Value Measurement of Financial Instruments (Continued)

Financial liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2012 RMB'000	Fair value measurements as at 31 December 2012 using Significant observable inputs (Level 2) RMB'000
Recurring fair value measurement		
Financial liabilities:		
Derivative financial instruments:		
— Forward exchange contracts	1	1

During the six months ended 30 June 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2012: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

(a) Derivative component of the convertible loan

The fair value of derivative component of the convertible loan in level 2 is determined by using the binomial option pricing model with the inputs of the expected volatility, maturity date, dividend yield and risk-free interest rate.

(b) Forward exchange contracts

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

22 Commitments

(a) Capital commitments

Capital commitments outstanding at the end of reporting period not provided for in the interim financial report are as follows:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Contracted for	**33,757**	80,238

(b) Operating lease commitments

At the end of the reporting period, the future minimum lease payments under operating leases were payable as follows:

	As at 30 June 2013 RMB'000	As at 31 December 2012 RMB'000
Within 1 year	**13,248**	8,022
After 1 year but within 3 years	**10,129**	12,540
After 3 year but within 5 years	**8,164**	9,516
After 5 years	**14,778**	18,662
	46,319	48,740

23 Material Related Party Transactions

During the six months ended 30 June 2013, the directors are of the view that the following were related parties of the Group:

Name of Related Party	Relationship
Mr Se Hok Pan and Ms Un Son I	Controlling shareholders
She Jian Bin (佘建彬)	Executive director of the Company
She Zhuo Teng (佘卓騰)	Close family member of She Jian Bin
M & M Real Estate Investment Company Limited	A company wholly-owned by controlling shareholders
江門洋明橱柜有限公司* (“Jiangmen Yangming”)	A company controlled by close family member of Ms. Un Son I

* *Jiangmen Yangming became a related party of the Group on 29 November 2012.*

(i) Sales of wood flooring products to related parties

	Six months ended 30 June	
	2013	2012
	RMB’000	RMB’000
Jiangmen Yangming	**275**	—

(ii) Purchase from related parties

	Six months ended 30 June	
	2013	2012
	RMB’000	RMB’000
Jiangmen Yangming	**153**	—

23 Material Related Party Transactions (Continued)

(iii) Operating lease charges to related parties

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Jiangmen Yangming	**230**	—

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
M & M Real Estate Investment Company Limited	—	136

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