



中國農林低碳控股有限公司

China Agroforestry Low-Carbon Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 01069)



2018 INTERIM REPORT

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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Mr. Lei Zuliang (*Chairman*)
Mr. Wang Yue
Professor Fei Phillip

Non-executive Director:

Professor Liu Zhikun

Independent Non-executive Directors:

Ms. Tian Guangmei
Mr. Liang Guoxin
Mr. Liu Zhaoxiang

AUDIT COMMITTEE

Ms. Tian Guangmei (*Chairman*)
Mr. Liang Guoxin
Mr. Liu Zhaoxiang

REMUNERATION COMMITTEE

Mr. Liang Guoxin (*Chairman*)
Mr. Lei Zuliang
Mr. Liu Zhaoxiang

NOMINATION COMMITTEE

Mr. Liu Zhaoxiang (*Chairman*)
Mr. Lei Zuliang
Mr. Liang Guoxin

JOINT COMPANY SECRETARIES

Mr. Ding Liang *CGA, ACCA*
Mr. Leung Man Kit *FCPA*

AUTHORISED REPRESENTATIVES

Mr. Lei Zuliang
Mr. Leung Man Kit *FCPA*

INDEPENDENT AUDITORS

CCTH CPA Limited
Certified Public Accountants

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1002–1003, 10/F
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA ("CHINA" OR THE "PRC")

13/F, Wongtee Mansion,
The Intersection Between Jinhua Road
and Fuhua Road, Futian Central District,
Shenzhen City, Guangdong Province,
The PRC

CORPORATE INFORMATION

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKER

China Construction Bank (Asia)
Corporation Limited
11/F, Devon House
979 King's Road
Quarry Bay, Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Tsun & Partners
1002-03, 10/F China Building
29 Queen's Road Central
Hong Kong

COMPANY WEBSITE

www.chinacaflc.com

STOCK CODE

01069

FINANCIAL HIGHLIGHTS

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

- Revenue of China Agroforestry Low-Carbon Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter referred to as the “**Group**”) for the six months ended 30 June 2018, which is contributed from the container house business, forestry business and money lending business of the Group, amounted to approximately Renminbi (“**RMB**”) 12.51 million (six months ended 30 June 2017: RMB50.08 million).
- Loss attributable to the owners of the Company for the six months ended 30 June 2018 amounted to approximately RMB33.2 million (six months ended 30 June 2017: approximately RMB19.4 million).
- Total comprehensive expense attributable to the owners of the Company for the six months ended 30 June 2018 amounted to approximately RMB36.3 million (six months ended 30 June 2017: approximately RMB14.8 million).
- Basic loss per share for the six months ended 30 June 2018 amounted to approximately RMB0.71 cents (six months ended 30 June 2017: RMB0.50 cents).
- The board (the “**Board**”) of directors (the “**Directors**”) of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONAL REVIEW

The Group is principally engaged in the businesses of (a) forestry management; (b) money lending and (c) provision of management and related services for the leases of container houses.

Continuing Operations

Forestry management business

As at 30 June 2018, the long-lease forest lands in the PRC owned by the Group were approximately 21,045 Chinese Mu (equivalent to approximately of 1,403 hectares), 9,623 Chinese Mu (equivalent to approximately of 642 hectares), 13,218 Chinese Mu (equivalent to approximately of 881 hectares) and 30,653 Chinese Mu (equivalent to approximately 2,044 hectares) in Muma Town of Jiange County of Sichuan Province (the “**Hengchang Forest**”), Zhengxing Town of Jiange County of Sichuan Province (the “**Kunlin Forest**”), Yixing Town of Jiange County of Sichuan Province (the “**Senbo Forest**”) and, Longyuanzhen, Houshixiang and Dianzixiang town of Jiange County of Sichuan Province (The “**Ruixiang Forest**” together with the Hengchang Forest, Kunlin Forest and Senbo Forest, the “**Forests**”), respectively.

The Hengchang Forest is held by China Timbers Limited (“**China Timbers**”, together with its subsidiaries “**China Timbers Group**”), through its wholly-owned subsidiaries. China Timbers was acquired by the Group on 28 May 2013. As at 30 June 2018, the Hengchang Forest was estimated to comprise of approximately 1,389 hectares of cypress with approximately 13 hectares of tree plantations aged 40 years or older.

The Kunlin Forest is held by Exceed Target Investment Group Limited (“**Exceed Target**” together with its subsidiaries “**Exceed Target Group**”), through its wholly-owned subsidiaries. Exceed Target was acquired by the Group on 26 February 2016. As at 30 June 2018, the Kunlin Forest was estimated to comprise of approximately 642 hectares of cypress with no tree plantations aged 40 years or older.

The Senbo Forest is held by Huxiang International Holdings Limited (“**Huxiang**” together with its subsidiaries “**Huxiang Group**”), through its wholly-owned subsidiaries. Huxiang was acquired by the Group on 11 October 2016. As at 30 June 2018, the Senbo Forest was estimated to comprise of approximately 881 hectares of cypress with approximately 290 hectares of tree plantations aged 40 years or older.

MANAGEMENT DISCUSSION AND ANALYSIS

The Ruixiang Forest is held by Garden Glaze Limited (“**Garden Glaze**” together with its subsidiaries “**Garden Glaze Group**”), through its wholly owned subsidiaries. Garden Glaze was acquired by the Group on 6 June 2017. As at 30 June 2018, the Ruixiang Forest was estimated to comprise of approximately 2,044 hectares of cypress with approximately 14 hectares of tree plantations aged 40 years or older.

The Hengchang Forest, the Kunlin Forest, the Senbo Forest and the Ruixiang Forest have been under various maintenance works, and the logging and transportation permits of the forest lands are being applied before the commencement of harvesting work. Accordingly, no revenue has been contributed from the Hengchang Forest, the Kunlin Forest, the Senbo Forest and the Ruixiang Forest to the Group for the six months ended 30 June 2018.

No harvesting work has been carried out on such assets for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

Money lending business

The Company’s wholly-owned subsidiary, namely Forever Biosource (Credit) Limited, is engaged in money lending business and recorded approximately RMB2.4 million (six months ended 30 June 2017: RMB2.8 million) as interest income for the six months ended 30 June 2018.

Container houses business

Completion of the acquisition of Hengfudelai took place on 9 September 2016. The manufacturing and maintenance of the container houses, along with its accessories, including furniture, interior decoration, and other facilities, needs substantial amount of wood materials. As the Group is currently and will continuously be involved in the forest land business in the foreseeable future, it has the capability to provide sufficient raw materials to satisfy the demand in container house manufacturing, maintenance and product upgrade.

For the six months ended 30 June 2018, the Group achieved a revenue of RMB10.13 million (six months ended 30 June 2017: RMB47.29 million), which accounted for 81% of the total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Discontinued Operations

Biomass fuel business

As disclosed in the Company's interim report for the six months ended 30 June 2017, no biomass fuel has been produced for the six months ended 30 June 2017.

References are made to the announcements of the Company dated 27 December 2017 and 8 January 2018 respectively, on 27 December 2017, the Company entered into an agreement with Well Nice Global Investment Limited ("**Well Nice**") as the purchaser, pursuant to which the Company has agreed to sell and Well Nice has agreed to purchase the entire issued share capital of Rongxuan Forestry Investment Holdings Limited at a total consideration of RMB1.8 million (equivalent to approximately HK\$2.15 million) (the "**Disposal**"). The Disposal was completed on 29 December 2017. Following the Disposal, the Company has ceased the operation of its biomass fuel business.

The Board was of the view that it would be better allocation of resources for the Group to realize the Group's investment in Rongxuan Forestry Investment Holdings Limited through the Disposal. The Directors (including the independent non-executive Directors) considered that the Disposal was conducted on normal commercial terms and was in the ordinary and usual course of business, and was fair and reasonable as the Company and its shareholders were concerned and was in the interests of the Company and its shareholders as a whole.

FINANCIAL REVIEW

Revenue

During the period under review, the Company recorded a revenue of RMB12.51 million (six months ended 30 June 2017: RMB50.08 million). The Group's revenue for the current period is attributable to the revenue from the container houses business and money lending business of the Group.

Interest income of approximately RMB2.4 million (six months ended 30 June 2017: RMB2.8 million) from the money lending business has been recognised for the six months ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Management services income of approximately RMB6.71 million (six months ended 30 June 2017: RMB47.29 million) from container houses business has been recognised for the six months ended 30 June 2018.

Rental income of approximately RMB3.42 million (six months ended 30 June 2017: nil) from container houses business has been recognised for the six months ended 30 June 2018.

For the six months ended 30 June 2018, no revenue was recorded for the forestry management business.

Cost of Sales

The cost of sales of the Group for the six months ended 30 June 2018 is mainly attributable to labour costs and other direct costs in the container houses business.

Valuation of Plantation Forest Assets

Management is of the view that the fair value less cost to sell of the Group's plantation forest assets at 30 June 2018 approximates those as at 31 December 2017 and that there has been no significant change in fair value of the Group's plantation forest assets since 31 December 2017.

Biological Assets

The biological assets of the Group represent the plantation forest assets situated in Jiange County of Sichuan Province.

MANAGEMENT DISCUSSION AND ANALYSIS

Movements of biological assets are as follows:

	Dali Forest RMB'000	Hengchang Forest RMB'000	Kunlin Forest RMB'000	Senbo Forest RMB'000	Ruixiang Forest RMB'000	Total RMB'000
At 1 January 2017 (audited)	18,007	192,021	53,902	78,275	-	342,205
Acquisition during the period	-	-	-	-	117,114	117,114
Changes in fair value less costs to sell	1,993	2,755	(1,302)	(5,675)	-	(2,229)
At 30 June 2017 (unaudited)	20,000	194,776	52,600	72,600	117,114	457,090
Harvested timber transferred to cost of inventories sold	-	(9,033)	(3,117)	-	-	(12,150)
Changes in fair value less costs to sell	100	20,257	5,917	(6,300)	25,886	45,860
De-recognised on disposal of subsidiaries	(20,100)	-	-	-	-	(20,100)
At 31 December 2017 and at 1 January 2018 (audited)	-	206,000	55,400	66,300	143,000	470,700
Additions	-	274	-	-	-	274
At 30 June 2018 (unaudited)	-	206,274	55,400	66,300	143,000	470,974

(a) Dali Forest

On 11 July 2012, the Group acquired the entire equity interests in Rongxuan Forestry Investment Holdings Limited (“**Rongxuan**”) and its subsidiaries (collectively referred to as the “**Rongxuan Group**”) which principally holds plantation forest assets in Dali, Yunnan Province, the PRC (“**Dali Forest**”). The Dali Forest was disposed of during the six months ended 31 December 2017.

(b) Hengchang Forest

On 28 May 2013, the Group acquired the entire equity in **China Timbers**. **China Timbers Group** are principally engaged in the operation and management of **Hengchang Forest**. The Hengchang Forest had a total leasehold land base of approximately 21,045 Chinese Mu (equivalent to approximately 1,403 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Hengchang Forest. During the period under review, no timber logs in respect of the Hengchang Forest were harvested (six months ended 30 June 2017: nil). As at 30 June 2018, the Hengchang Forest is estimated to comprise approximately 1,389 hectares of cypress trees with approximately 13 hectares of tree plantations aged 40 years or older.

MANAGEMENT DISCUSSION AND ANALYSIS

(c) Kunlin Forest

On 26 February 2016, the Group acquired the entire equity interests in **Exceed Target. Exceed Target Group** are principally engaged in the operation and management of the **Kunlin Forest**. The Kunlin Forest had a total leasehold land base of approximately 9,623 Chinese Mu (equivalent to approximately of 641.5 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Kunlin Forest. During the period under review, no timber logs in respect of the Kunlin Forest were harvested (six months ended 30 June 2017: nil). As at 30 June 2018, the Kunlin Forest is estimated to comprise approximately 641.5 hectares of cypress trees with no tree plantations aged 40 years or older.

(d) Senbo Forest

On 11 October 2016, the Group acquired the entire equity interest in **Huxiang. Huxiang Group** principally holds plantation forest assets in Senbo Forest. The Senbo Forest had a total leasehold land base of approximately 13,218 Chinese Mu (equivalent to approximately 881 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Senbo Forest. During the period under review, no timber logs in respect of the Senbo Forest were harvested (six months ended 30 June 2017: nil). As at 30 June 2018, the Senbo Forest is estimated to comprise of approximately 881 hectares of cypress with approximately 290 hectares of tree plantations aged 40 years or older.

(e) Ruixiang Forest

On 6 June 2017, the Group acquired the entire equity interest in **Garden Glaze. Garden Glaze Group** principally holds plantation forest assets in Ruixiang Forest. The Ruixiang Forest had a total leasehold land base of approximately 30,653 Chinese Mu (equivalent to approximately of 2,043.5 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Ruixiang Forest. During the period under review, no timber logs in respect of the Ruixiang Forest were harvested (six months ended 30 June 2017: nil). As at 30 June 2018, the Ruixiang Forest is estimated to comprise approximately 2,043.5 hectares of cypress trees with approximately 14 hectares of tree plantations with aged 40 years or older.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Costs

No selling and distribution costs recognised by continuing operations for the six months ended 30 June 2018 (six months ended 30 June 2017: nil). The selling and distribution costs were mainly attributable to the transportation costs incurred by the discontinued operations.

Administrative Expenses

The administrative expenses from continuing operations decreased by approximately 34.9% from approximately RMB40.4 million for six months ended 30 June 2017 to approximately RMB26.3 million for the six months ended 30 June 2018. The decrease in administrative expenses from continuing operations was mainly attributable to less consultancy fee paid for issue of promissory notes and corporate bonds.

Impairment loss recognised in respect of trade receivables

No impairment loss was recognised in respect of trade receivables for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

Finance Costs

The finance costs from continuing operations include mainly interests on (i) the promissory notes (being the Note A as stated below), bearing 3% interest rate per annum and with the principal amount of HK\$144 million issued on 28 May 2013; (ii) the promissory notes (being the Note B as stated below), bearing 5% interest rate per annum with the principal amount of HK\$170,000,000 issued on 6 June 2017; (iii) the promissory notes (being the Note C as stated below), bearing 3.5% interest rate per annum with the principal amount of RMB95,000,000 issued on 21 November 2017; (iv) the corporate bonds with the aggregate principal amounts of HK\$253,200,000 bearing interest rates ranged from 4% to 10% per annum.

Income Tax Credit/Expenses

For the six months ended 30 June 2018, the income tax credit from continuing operations was approximately RMB1.6 million (six month ended 30 June 2017: income tax expenses RMB8.6 million), which was attributable to the Hong Kong Profits Tax and the PRC tax imposed on profits of the subsidiaries less the deferred tax credit.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss and Total Comprehensive Expense Attributable to Owners of the Company

Loss for the period under review was approximately RMB33.2 million (six months ended 30 June 2017: RMB19.4 million).

As a result of the above changes, the Company has recorded a loss of approximately RMB33.2 million for the six months ended 30 June 2018, compared to a loss of approximately RMB19.4 million for the six months ended 30 June 2017. The total comprehensive expense attributable to owners of the Company was approximately RMB36.3 million for the six months ended 30 June 2018, when comparing to a total comprehensive expense of approximately RMB14.8 million for the six months ended 30 June 2017.

Loss Per Share

Basic loss per share for the six months ended 30 June 2018 amounted to approximately RMB0.71 cents (six months ended 30 June 2017: RMB0.50 cents).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group employed a total of 91 employees as compared to 82 employees as at 30 June 2017, including the Directors. Total staff costs for continuing operations for the period under review, including Directors' remuneration, amounted to approximately RMB4.3 million (six months ended 30 June 2017: RMB4.3 million). The Group's remuneration policy is in line with the prevailing market standards and is determined on the basis of performance and experience of individual employee. Other employee benefits include contributions to social insurance scheme.

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

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its daily operations from internally generated cash flows, bank borrowings and certain net proceeds from fund raising activities. As at 30 June 2018, the Group had total assets of approximately RMB770.5 million and net assets of approximately RMB350.1 million. The Group's cash and bank balances as at 30 June 2018 amounted to approximately RMB9.7 million. As at 30 June 2018, there was no unutilised banking facilities (30 June 2017: nil).

Promissory note issued on 28 May 2013 (the "Note A")

On 28 May 2013, the Company issued the Note A with the principal amount of HK\$144,000,000 as part of the consideration for the acquisition of certain subsidiaries. The Note A, which is unsecured, bears interest at 3% per annum for the first two years from the date of issue and 8% per annum thereafter, and is payable on the maturity date of 28 May 2018 at the principal amount. The Company is also entitled to redeem the whole or part of the Note A at the principal amount at any time before the maturity date.

During the year ended 31 December 2013, the Company repaid part of the Note A with the principal amount of HK\$25,000,000 for cash consideration of HK\$25,000,000.

During the year ended 31 December 2014, the Company repaid part of the Note A with the principal amount of HK\$90,497,000 for cash consideration of HK\$90,497,000. At 31 December 2014, the Note A with the principal amount of HK\$28,503,000 (2013: HK\$119,000,000) remained outstanding.

During the year ended 31 December 2015, the Company redeemed part of the Note A with the principal amount of HK\$1,000,000 at cash consideration of HK\$1,000,000. During the year ended 31 December 2017, no part of the Note A was redeemed. During the current period, the Company redeemed part of the Note A with principal amount of HK\$9,762,000 for cash consideration of RMB8,000,000. As at 30 June 2018, the Note A with the principal amount of HK\$17,741,000 remained outstanding.

Reference is made to the announcement of the Company dated 23 May 2018, the Company and the corresponding Note A holders mutually agreed to extend the maturity date of Note A with the said outstanding principal amount and the said corresponding outstanding interest to 28 August 2018.

Reference is also made to the Company's announcement dated 28 August 2018, all outstanding principal amount of the Note A, being HK\$17,741,000 and the corresponding outstanding interest, being HK\$892,139.13 have been fully repaid by the Company on 28 August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Promissory notes issued on 16 August 2016 (the “Note B”)

On 30 June 2016, the Company, Mr. Wang Yue (the “**Chargor**”) and Prosper Talent Limited (the “**Investor**”) entered into the subscription agreement, pursuant to which the Company has conditionally agreed to issue and the Investor has conditionally agreed to subscribe for the redeemable fixed coupon promissory notes in the aggregate principal sum of HK\$100,000,000 (being the “**Note B**”). The Note B shall be issued in two tranches, the Series A Note and the Series B Note, both bearing an interest rate of 10% per annum and with the maturity period of 1 year from the date of issue. The Note B are secured by the Chargor who is the executive director and a substantial shareholder of the Company and the Investor is a limited liability company incorporated in the BVI. On 16 August 2016, completion of the subscription of the Series A Note took place and the redeemable fixed coupon promissory notes in the principal amount of HK\$50,000,000 were issued to the Investor in accordance with the subscription agreement. On 17 August 2017, the Company fully redeemed HK\$50 million of the Note B at a cash consideration of HK\$50 million paid to the Investor and the holder of the Note B issued by the Company. Further, the 318,500,000 shares of the Company held by the Chargor was released as security for the note at completion of the redemption.

Promissory note issued on 11 October 2016 (the “Note C”)

On 30 September 2016, the Company and Mr. Dai Long Gui (“**Mr Dai**”) entered into an acquisition agreement, pursuant to which, among other things, the Company has conditionally agreed to acquire the entire issued share capital in Huxiang, at a total consideration of HK\$93,000,000, to be satisfied by (i) the deposit of HK\$8 million; (ii) HK\$52 million in cash; and (iii) HK\$33 million by the issue of the Promissory Note (being the “**Note C**”) to Mr Dai. Huxiang is an investment holding company incorporated in the BVI with limited liability. Through its wholly owned subsidiaries, Huxiang indirectly wholly holds the entire equity interest in Jiangxian Senbo Linye Company Ltd., which is principally engaged in the plantation, harvesting and selling of timber in the Forests, and possesses the Senbo Forest and the right to be engaged in the operations and management of the Senbo Forest. The Note C bears an interest at 3% per annum for three years and is payable on the maturity date of 10 October 2019. During the year ended 31 December 2017, the Company fully redeemed the Note C with the principal amount of HK\$25,000,000 for cash consideration of HK\$25,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Promissory note issued on 6 June 2017 (the “Note D”)

On 31 May 2017, the Company and the vendors, six independent third parties entered into an acquisition agreement, pursuant to which, among other things, the Company has conditionally agreed to acquire the entire issued share capital in Garden Glaze, at total consideration of HK\$170,000,000, to be satisfied by the issue of the Promissory Note (being the “**Note D**”) to the vendors. Garden Glaze is an investment holding company incorporated in the BVI with limited liability. Through its wholly owned subsidiaries, Garden Glaze indirectly wholly holds the entire equity interest in Jiangxian Ruixiang Linye Company Limited, which is principally engaged in the plantation, harvesting and selling of timber in the forests, and possesses the Ruixiang Forest and the right to be engaged in the operations and management of the Ruixiang Forest. The Note D bears an interest at 5% per annum for two years and is payable on the maturity date of 5 June 2019. During the year ended 31 December 2017, the Company redeemed part of the Note D with the principal amount of HK\$86,200,000 for cash consideration of HK\$86,200,000. During the current period, the Company redeemed part of the Note D with the principal amount of HK\$60,000,000 for cash consideration of HK\$60,000,000. At 30 June 2018, the Note D with the principal amount of HK\$23,800,000 remained outstanding.

Promissory note issued on 21 November 2017 (the “Note E”)

On 2 March 2017, YuePengDa Forestry (Shenzhen) Limited, an indirect wholly-owned subsidiary of the Company, and Shenzhen Chong Sheng Chi Yip Limited (the “**Shenzhen Chong Sheng**”) entered into an acquisition agreement, pursuant to which, among other things, the Group has conditionally agreed to acquire the entire issued share capital in Xiangyin Chong Sheng, at total consideration of RMB100,000,000, to be satisfied by (i) RMB5 million in cash; and (ii) RMB95 million by the issue of the Promissory Note (being the “**Note E**”) to Shenzhen Chong Sheng. Xiangyin Chong Sheng principally engaged in the business of design, manufacture and distribution of container houses. The Note E bears an interest at 3.5% per annum for two years and is payable on the maturity date of 20 November 2019. At 30 June 2018, the Note E with the principal amount of RMB95,000,000 remained outstanding.

PLEDGE OF ASSETS

As at 30 June 2018, there was no pledge of assets of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL LITIGATION

As at 30 June 2018, the Group was not involved in any material litigation or arbitration (As at 31 December 2017: nil).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities (As at 31 December 2017: nil).

FOREIGN EXCHANGE EXPOSURE AND RELATED HEDGES

The Group's transactions are mainly denominated in Hong Kong dollars and RMB. Therefore, the Group is exposed to exchange rate risk. The majority of the Group's cash and bank balances are also denominated in these two currencies. During the six months ended 30 June 2018, the Group did not experience significant exposure to exchange rate and interest rate fluctuations. Accordingly, the Group has not implemented any foreign currency hedging policy at the moment. However, the management of the Group will constantly review the economic situation, development of each business segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in the future when necessary.

GEARING RATIO

The gearing ratio of the Group, which is calculated as total liabilities divided by total assets of the Group was approximately 54.6% as at 30 June 2018 (30 June 2017: 54.7%).

As at 30 June 2018, promissory notes with the principal amount of HK\$154.2 million remained outstanding and the corporate bonds with the principal amount of HK\$253.2 million remained outstanding.

CAPITAL STRUCTURE

The share capital of the Group comprises only ordinary shares. As at 30 June 2018, the total number of the ordinary shares of the Company in issue was 4,409,688,166 shares (31 December 2017: 4,409,688,166 shares). The total equity attributable to the owners of the Company was approximately RMB350.1 million (31 December 2017: approximately RMB386.4 million).

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

The Group has no capital commitments at the end of the reporting period.

UPDATE OF THE 2018 FIRST HALF-YEARLY PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF HENGFUDELAISI

Reference is made to the Company's interim report 2017, the profit guarantee of RMB24,500,000 for the period from 1 January 2017 to 30 June 2017 was met. The Company shall pay the respective vendors RMB7,350,000 by cash and RMB17,150,000 by issuing 62,321,257 shares at the issue price of HK\$0.33 per share as partial consideration of the acquisition, in accordance with the terms of the agreement of the acquisition dated 22 April 2016.

Reference is also made to the Company's annual report 2017, the profit guarantee of RMB31,500,000 for the period from 1 July 2017 to 31 December 2017 was not met. As Gorgeous City Investment Limited (the ultimate holding company of Hengfudelaishi) failed to meet 70% of the profit guarantee for the period from 1 July 2017 to 31 December 2017, no consideration or any part thereof was paid to the respective vendors for the period from 1 July 2017 to 31 December 2017 in accordance with the terms of the agreement of the acquisition dated 22 April 2016.

Reference is also made to the Company's announcement dated 17 August 2018, the profit guarantee of RMB38,500,000 for the period from 1 January 2018 to 30 June 2018 was not met. As Gorgeous City Investment Limited (the ultimate holding company of Hengfudelaishi) failed to meet 70% of the profit guarantee for the period 1 January 2018 to 30 June 2018, no consideration or any part thereof was paid to the respective vendors for the period from 1 January 2018 to 30 June 2018 in accordance with the terms of the agreement of the acquisition dated 22 April 2016.

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITIONS AND DISPOSAL

Save as disclosed in this report, there were no significant investment held or material acquisitions and disposals of subsidiaries for the period ended 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to acting in an environmentally responsible manner, the Group strives to ensure minimal environmental impacts by carefully managing our energy consumption, water usage and waste production, such as using LED lamps, recycling and use of eco-friendly stationery, plus a series of measures to save paper and energy. At office level, the Company has implemented green initiatives and encourage staff to join environmental related training, resulted in more efficient use of resources, as well as reduction of waste.

COMPLIANCE WITH LAWS AND REGULATIONS

There was no material breach of or non-compliance with the applicable laws and regulations such as the Hong Kong Companies Ordinance (Cap. 622), the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and other applicable local laws and regulations in various jurisdictions. The Board pays attention to the Group’s policies and practices on compliance with legal and regulatory requirements. External compliance and legal advisers are engaged to ensure transactions and business performed by the Group are within the applicable law framework. Updates on applicable laws, rules and regulations are brought to the attention of relevant employees and operation units from time to time.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees of the Group. Relationship is the fundamentals of business. The Group fully understand this principal and thus maintain close relationship with the customers to fulfil their immediate and long-term need. The Group encompasses working relationships with suppliers to meet our customer’s needs in an effective and efficient manner. The Group work closely and well-communicated to suppliers before the commencement of a project.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES FACING THE COMPANY

The following lists out the principal risks and uncertainties facing the company in achieving business objectives and the Group's approach to tackle them.

Impact of local and international regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities in the PRC. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Major risks associated with the plantation assets

The major risks associated with the plantation assets involve (i) regulatory and environmental risks; (ii) climate and other risks; and (iii) supply and demand risk. The Group tackled the risks by (i) performing regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks; (ii) monitoring and mitigating climate and other risks with measures including regular forest health inspections and industry pest and disease surveys; (iii) performing regular industry trend analyses to ensure that the Group's pricing structure is in line with market, and that the provided harvest volumes are consistent with the expected demand.

Currency risk

No revenue derived by the Group in respect of the period ended 30 June 2018 was denominated in foreign currencies. Substantially all of the costs incurred for the period ended 30 June 2018 was denominated in functional currencies of the group entities. As at 30 June 2018, the Group had no significant monetary assets and liabilities which were denominated in foreign currencies. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

As at 30 June 2018, the Group was also exposed to cash flow interest rate risk in relation to bank balances carried at prevailing floating market rate. However, such exposure is minimal to the Group as the bank balances are all short-term in nature.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As disclosed in the Company's announcement dated 25 May 2018, the Company entered into a memorandum of understanding with potential vendor in relation to a possible acquisition. Reference is also made to the Company's announcement dated 13 August 2018 (the "13 August Announcement"), the Company and Mr. Wang Shaofan (王少凡), Ms. Ma Xiaojun (馬曉俊), Ms. Yuan Man (袁滿), Ms. Chen Ling (陳玲), Mr. Wang Liang (王亮), Mr. Fu Yang (付洋), Ms. Ren Qionglan (任瓊蘭) (each the "Vendor" and collectively the "Vendors") entered into the Acquisition Agreement (as defined in the 13 August Announcement), pursuant to which, among other things, the Company has conditionally agreed to acquire from the Vendors and the Vendors have conditionally agreed to sell to the Company the entire issued shares of Today Bridge at a consideration of HK\$166,000,000, which will be satisfied by cash and the issue of a promissory notes to the Vendors in their respective interests in the Sale Shares (as defined in the 13 August Announcement) upon completion.

Today Bridge is an investment holding company incorporated in British Virgin Islands with limited liability. Through its direct wholly owned subsidiary, Today Bridge holds the entire equity interest in Xinglonghe Shiye (Shenzhen) Limited (興隆和實業(深圳)有限公司) ("Xinglonghe Shiye"). The principal asset of Xinglonghe Shiye is its entire equity interest in Jiange Wantai Linye Limited (劍閣萬泰林業有限公司), which is principally engaged in the operation of tree plantations, sale and plantation of Chinese herbs, providing consultation services of seedlings technology.

As forestry management is one of the core business of our Group, the Board endeavoured to achieve continuous growth by seeking investment and acquisition opportunities in the forestry business. Based on the findings of preliminary due diligence exercise of the Company, the Company understands that Today Bridge and its subsidiaries are principally engaged in the operation of tree plantation, plantation and sales of Chinese herbs, and advisory services of seedlings technology, which may provide the Group further support and opportunities to develop and expand its forestry business. The Acquisition (as defined in the 13 August Announcement) is in line with the Group's growth strategies and shall benefit the Group by strengthening its core business and diversifying its revenue sources.

The completion of the Acquisition took place on 24 August 2018, and Today Bridge became a wholly owned subsidiary of the Company and accordingly, the financial information of Today Bridge would be consolidated into the accounts of the Group. The Acquisition is in line with the Group's growth strategies and shall benefit the Group by strengthening its core business and diversifying its revenue sources.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT AND OUTLOOK

Maintenance works of the Hengchang Forest, the Kunlin Forest, the Senbo Forest and the Ruixiang Forest have been ongoing and the logging and transportation permits for the said forests have been applied for. Harvesting of forest stock in the said forests could be commenced when the said permits are obtained, with production capacity expected to grow gradually in 2018. In addition to the Forests, the newly acquired forest by the Company (please refer to the Company's announcements dated 13 August 2018 and 24 August 2018), located in Jiange County of Sichuan Province, has also commenced to apply for its logging permits as planned. The management of the Company expects to receive the local government's approval of logging permits, in all or by part, within the next few weeks.

References are made to the announcements of the Company dated 25 January 2018 (the **"25 Jan 2018 Announcement"**) and 2 August 2018, the circular of the Company dated 8 May 2018 and the prospectus of the Company dated 12 July 2018 respectively. On 25 January 2018, the Underwriters (as defined in the 25 Jan 2018 Announcement) and the Company entered into an underwriting agreement (as supplemented by a supplemental underwriting agreement dated 19 March 2018, the **"Underwriting Agreement"**), pursuant to which, the Underwriters have conditionally agreed to underwrite all the Underwritten Shares (as defined in the 25 Jan 2018 Announcement) subject to the terms and conditions set out in the Underwriting Agreement. On 25 January 2018, the Board proposed to raise approximately HK\$344 million, before expenses, by way of the Rights Issue of 6,614,532,249 Rights Shares (as defined in the 25 Jan 2018 Announcement) to the Qualifying Shareholders (as defined in the 25 Jan 2018 Announcement) (assuming no exercise of the outstanding Share Options and no issue of new Shares or repurchase of Shares by the Company from the Latest Practicable Date (as defined in the 25 Jan 2018 Announcement) up to the Record Date (as defined in the 25 Jan 2018 Announcement)) at a subscription price of HK\$0.052 per Rights Share (as defined in the 25 Jan 2018 Announcement) on the basis of three (3) Rights Shares for every two (2) existing Shares held on the Record Date. The Rights Issue was approved by the independent Shareholders at the extraordinary general meeting of the Company on 28 June 2018.

The net proceeds from the Rights Issue (after deducting the estimated expenses) are estimated to be approximately HK\$334 million. The Company intends to apply net proceeds of approximately HK\$334 million as to (i) approximately HK\$50 million for the research and development, design and construction of light steel villas and assembled mobile houses; (ii) approximately HK\$211 million for the proposed acquisition of forest lands in the PRC; and (iii) approximately HK\$73 million for the settlement of promissory notes and corporate bonds.

MANAGEMENT DISCUSSION AND ANALYSIS

Concerning the existing container house leasing business, the Company intends to expand its customer base and operation of container houses business in the surrounding area of Shenzhen, the PRC.

References are made to the Company's announcements dated 31 August 2018 and 4 September 2018 respectively, in relation to, among others, a memorandum of understanding entered into between the Company and a potential vendor concerning a possible acquisition of the non-current assets owned by the potential vendor. The Group has been seeking and exploring business and investment opportunities to strengthen its core business and diversify its revenue sources. The Board is of the view that there is business potential in the possible acquisition, which could diversify and improve the prospects of the Group.

DISCLOSURE OF ADDITIONAL INFORMATION

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

As at 30 June 2018, the Director or chief executive of the Company who had any interests or short positions in the shares, underlying shares and debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which require notification pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of Part XV of the SFO, to be entered in the register kept by the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as contained in Appendix 10 to the Listing Rules was as follow:

Long position in shares of the Company

Name	Capacity	Long position/ short position	Number of ordinary shares	Percentage of issued share capital <i>(Note 1)</i>
Mr. Lei Zuliang	Beneficial owner	Long position	11,000,000	0.25%
Mr. Liang Guoxin	Beneficial owner	Long position	1,030,000	0.02%
Ms. Tian Guangmei	Beneficial owner	Long position	1,790,000	0.04%
Mr. Wang Yue	Beneficial owner	Long position	636,210,000	14.43%
Professor Fei Phillip	Beneficial owner	Long position	1,000,000	0.02%
Professor Liu Zhikun	Beneficial owner	Long position	1,000,000	0.02%
Mr. Liu Zhaoxiang	Beneficial owner	Long position	1,000,000	0.02%

Notes:

1. The relevant percentage is calculated by reference to the Shares in issue on 30 June 2018 i.e. 4,409,688,166 shares.

Save as disclosed above, as at 30 June 2018, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF ADDITIONAL INFORMATION

CHANGES IN INFORMATION OF DIRECTORS

The Directors of the Company are not aware of any other information in respect of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (For the six months ended 30 June 2017: nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed shares of the Company during the six months ended 30 June 2018.

SHARE OPTION SCHEME (“2016 SCHEME”)

The Extraordinary General Meeting (the “**EGM**”) held on 15 June 2016, the ordinary resolution (the “**Resolution**”) as set out in the EGM Notice dated 23 May 2016 was duly passed by its shareholders to refresh and renew the existing scheme mandate limit of the share option scheme adopted by the Company on 15 September 2009.

On 1 December 2017, shares options were granted to certain eligible participants (the “**Grantees**”) to subscribe for up to an aggregate of 339,842,722 ordinary Shares of the Company of HK\$0.087 each in the share capital of the Company under the Scheme, which represented 10% of issued share capital of the Company as at the date of approval of the Scheme.

DISCLOSURE OF ADDITIONAL INFORMATION

Summary of the 2016 Scheme is set out as follows:

(a) Purpose of the 2016 Scheme

The purpose of the 2016 Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(b) Participants of the 2016 Scheme

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of the Group, or any substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, options to subscribe the Shares as it may determine in accordance with the terms of the Scheme. The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of the Group.

(c) Total Number of Shares Available for Issue under the 2016 Scheme

- (i) The maximum number of shares in respect of which options may be granted under the 2016 Scheme shall not (when aggregated with any shares subject to any other share option scheme(s) of the Company) exceed 10% of the issued share capital of the Company on 15 June 2016, the date on which was duly passed by the Shareholders to refresh and renew the existing scheme mandate limit of the share option scheme adopted by the Company on 15 September 2009.
- (ii) The maximum number of shares in respect of which options may be granted to grantees under the Share Option Scheme and other share option schemes of the Company shall not exceed 30% of the issued share capital of the Company from time to time.
- (iii) As at 30 June 2018, the total number of shares available for issue under the Share Option Scheme was 339,842,722 shares.

DISCLOSURE OF ADDITIONAL INFORMATION

(d) Maximum Entitlement of Each Participant under the 2016 Scheme

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

(e) Option Period

One year

(f) Consideration and Acceptance of the option

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK\$1.00.

(g) Basis of Determining the Exercise Price

The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of:

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

DISCLOSURE OF ADDITIONAL INFORMATION

(h) The remaining life of the 2016 Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the 2016 Scheme and in such event no further options will be offered or granted. Subject to the aforesaid, the 2016 Scheme shall be valid and effective from 1 December 2017 and expiring on 30 November 2018, both days inclusive.

Details of the share options movements as at 30 June 2018 under the 2016 Scheme are as follows:

Name	Date of grant of share options	Exercise price (HK\$)	Outstanding	Exercised in 2018	Cancelled/	Outstanding	Exercise period
			as at 1 January 2018		Lapsed in 2018	as at 30 June 2018	
Directors							
Mr. Lei Zuliang	1 December 2017	0.087	1,000,000	0	0	1,000,000	1 December 2017–30 November 2018
Mr. Wang Yue	1 December 2017	0.087	4,000,000	0	0	4,000,000	1 December 2017–30 November 2018
Professor Fei Phillip	1 December 2017	0.087	1,000,000	0	0	1,000,000	1 December 2017–30 November 2018
Professor Liu Zhikun	1 December 2017	0.087	1,000,000	0	0	1,000,000	1 December 2017–30 November 2018
Ms. Tian Guangmei	1 December 2017	0.087	1,000,000	0	0	1,000,000	1 December 2017–30 November 2018
Mr. Liang Guoxin	1 December 2017	0.087	1,000,000	0	0	1,000,000	1 December 2017–30 November 2018
Mr. Liu Zhaoxiang	1 December 2017	0.087	1,000,000	0	0	1,000,000	1 December 2017–30 November 2018
Subtotal			10,000,000	0	0	10,000,000	1 December 2017–30 November 2018
Others	1 December 2017	0.087	329,842,722	0	0	329,842,722	1 December 2017–30 November 2018
Total			339,842,722	0	0	339,842,722	

Note: Upon completion of the rights issue of shares of the Company as referred to the Company's prospectus dated 12 July 2018 and the Company's announcement dated 2 August 2018, and in accordance with the terms and conditions of the Share Option Scheme of the Company and Rule 17.03(13) of the Listing Rules, on 3 August 2018, the exercise price of the outstanding share options was adjusted to HK\$0.082 per Share and the number of shares to be allotted and issued upon full exercise of subscription rights attaching to the outstanding share options was adjusted to 360,564,839 shares.

DISCLOSURE OF ADDITIONAL INFORMATION

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisition or disposal of subsidiaries or associated companies during the six months ended 30 June 2018.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted all the code provisions (the “**Code Provisions**”) contained in the Corporate Governance Code (the “**CG Code**”) as set out in the Appendix 14 to the Listing Rules as the Company’s code on corporate governance. The Board shall review and update its code of corporate governance from time to time to ensure its continuous compliance with the CG Code. Throughout the six months ended 30 June 2018, in the opinion of the Board, the Company complied with all the Code Provisions contained in the CG Code and, where appropriate, adopted the Recommended Best Practices set out in the CG Code, with the exceptions of Code Provisions A.1.8 and A.4.1 as addressed below:

1. Pursuant to the Code Provision A.1.8, the Company should arrange appropriate insurance cover in respect of any legal action against its Directors and officers. Up to the date of this report, the Company has not arranged to purchase any Directors and Officers’ Liability Insurance, which covers in respect of legal action against the Directors, as the Directors take the view that the Company shall support Directors in any events arising from corporate activities;
2. Under the Code Provision A.4.1, all the non-executive directors should be appointed for a specific term, subject to re-election. At present, none of the non-executive Directors has been appointed for a specific term. Notwithstanding the aforesaid deviation, one-third of the Directors (including the non-executive Directors and independent non-executive Directors) are subject to retirement by rotation and re-election at each of the Company’s annual general meeting and every Director shall be subject to retirement by rotation at least once in every three years in compliance with the Company’s articles of association. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are in line with the underlying intentions of Code Provision A.4.1 of the CG Code.

The Company periodically reviews its corporate governance practices to ensure they continue to meet the requirements of the Code Provisions contained in the CG Code.

DISCLOSURE OF ADDITIONAL INFORMATION

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Having made specific enquiry with all the Directors, the Company confirmed that all the Directors have complied with the code of conduct and the required standard of dealings concerning securities transactions by the Directors for the six months ended 30 June 2018.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has established the Audit Committee in accordance with the requirements of the Code Provisions as set up in Appendix 14 of the Listing Rules. As at the date of this report, the Audit Committee comprises three independent non-executive Directors, namely Ms. Tian Guangmei (as the chairman), Mr. Liang Guoxin and Mr. Liu Zhaoxiang.

The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2018 and is of the opinion that the preparation of such results complied with the applicable accounting standards, rules and requirements, and that adequate disclosure has been made.

On behalf of the Board

China Agroforestry Low-Carbon Holdings Limited

Lei Zuliang

Chairman

Shenzhen, the PRC, 30 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	<i>Notes</i>	RMB'000	RMB'000
		(unaudited)	(unaudited)
			(restated)
Continuing Operations			
Revenue	4	12,514	50,075
Cost of sales and services		(2,381)	(2,889)
Gross profit		10,133	47,186
Investment and other income	6	942	593
Other gains and losses	7	(4,338)	(3,238)
Administrative expenses		(26,276)	(40,389)
Finance costs	8	(15,292)	(13,858)
Loss before tax	9	(34,831)	(9,706)
Income tax credit (expense)	10	1,629	(8,593)
Loss for the period from continuing operations		(33,202)	(18,299)
Discontinued Operations			
Loss for the period from discontinued operations	11	-	(1,142)
Loss for the period		(33,202)	(19,441)
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(3,130)	4,624
Total comprehensive expense for the period		(36,332)	(14,817)
Loss for the period from continuing operations attributable to owners of the Company		(33,202)	(18,299)
Loss for the period from continuing and discontinued operations attributable to owners of the Company		(33,202)	(19,441)
Total comprehensive expense attributable to owners of the Company		(36,332)	(14,817)
Six months ended 30 June			
		2018	2017
	<i>Notes</i>	(unaudited)	(unaudited)
			(restated)
Loss per share:	13		
From continuing and discontinued operations			
Basic		RMB0.71 cents	RMB0.50 cents
Diluted		N/A	N/A
From continuing operations			
Basic		RMB0.71 cents	RMB0.47 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	14	79,694	83,152
Prepaid land lease payments		27,458	27,868
Plantation forest assets	15	470,974	470,700
Loans receivable		10,935	35,260
Other intangible assets		33,798	47,203
		622,859	664,183
Current assets			
Trade and other receivables	16	76,656	124,096
Loans receivable		55,716	36,609
Deposits and prepayments		4,747	4,212
Prepaid land lease payments		821	821
Bank balances and cash		9,668	22,323
		147,608	188,061
Current liabilities			
Other payables	17	78,302	73,323
Promissory notes payable	18	34,792	22,560
Corporate bonds payable	19	16,286	–
Current tax payable		3,243	3,720
		132,623	99,603
Net current assets		14,985	88,458
Total assets less current liabilities		637,844	752,641
Non-current liabilities			
Promissory notes payable	18	85,132	145,872
Corporate bonds payable	19	194,200	208,574
Deferred tax liabilities		8,450	11,801
		287,782	366,247
Net assets		350,062	386,394
Capital and reserves			
Share capital	21	7,501	7,501
Reserves		342,561	378,893
Total equity		350,062	386,394

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Convertible bonds equity reserve RMB'000	Translation reserve RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017 (audited)	6,239	459,963	-	3,298	(7,427)	18,038	(168,211)	311,900
Loss for the period	-	-	-	-	-	-	(19,441)	(19,441)
Other comprehensive income for the period	-	-	-	-	4,624	-	-	4,624
Total comprehensive income (expense) for the period	-	-	-	-	4,624	-	(19,441)	(14,817)
Convertible bonds redeemed during the period	-	-	-	(3,298)	-	-	3,298	-
At 30 June 2017 (unaudited)	6,239	459,963	-	-	(2,803)	18,038	(184,354)	297,083
Profit for the period	-	-	-	-	-	-	11,702	11,702
Other comprehensive income for the period	-	-	-	-	9,236	-	-	9,236
Total comprehensive income for the period	-	-	-	-	9,236	-	11,702	20,938
Recognition of equity-settled share-based payments	-	-	5,476	-	-	-	(5,476)	-
Issue of shares upon:								
– Shares placement and subscription	1,156	62,422	-	-	-	-	-	63,578
– Fulfilment of profit guarantee	106	5,203	-	-	-	-	-	5,309
Share issue expenses	-	(514)	-	-	-	-	-	(514)
At 31 December 2017 and at 1 January 2018 (audited)	7,501	527,074	5,476	-	6,433	18,038	(178,128)	386,394
Loss for the period	-	-	-	-	-	-	(33,202)	(33,202)
Other comprehensive expense for the period	-	-	-	-	(3,130)	-	-	(3,130)
Total comprehensive expense for the period	-	-	-	-	(3,130)	-	(33,202)	(36,332)
At 30 June 2018 (unaudited)	7,501	527,074	5,476	-	3,303	18,038	(211,330)	350,062

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	52,562	(12,612)
Net cash used in investing activities	(263)	(4,096)
Net cash (used in) from financing activities	(64,929)	9,824
Net decrease in cash and cash equivalents	(12,630)	(6,884)
Cash and cash equivalents at 1 January	22,323	35,938
Effect of foreign exchange rate changes	(25)	(291)
Cash and cash equivalents at 30 June, represented by		
Bank balances and cash	9,668	28,763

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. GENERAL INFORMATION

China Agroforestry Low-Carbon Holdings Limited (the “**Company**”) is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in forestry management, provision of services in relation to management, leasing, sale and installation of container houses, money lending and investment holding. In the prior year, the Group was also engaged in the production and sale of biomass fuel products.

The Company’s functional currency is Hong Kong dollar (“**HK\$**”) while that for the major subsidiaries in the People’s Republic of China (“**PRC**”) is Renminbi (“**RMB**”). As the operations of the Group are mainly undertaken in the PRC, the directors of the Company consider that it is appropriate to present the condensed consolidated interim financial statements in RMB.

As referred to in Note 11, the Group discontinued its business of manufacture and sale of biomass fuel products on 29 December 2017. Results of the Group’s operations attributable to this business are presented as discontinued operations in the condensed consolidated statement of profit or loss and other comprehensive income. Certain comparative figures have been restated to conform with the current period’s presentation.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements has been prepared on the historical cost basis, except for the plantation forest assets which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated interim financial information for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The adoption of these revised HKFRSs has had no significant financial effect on the unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in the unaudited interim condensed consolidated financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

4. REVENUE

Revenue represents the aggregate of the amounts received and receivable for goods sold in the normal course of business, net of returns and discounts, services income and rental income from container houses business, and interest income from money lending business, analysed as below:

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue from sales of goods	-	-	-	-	14	14
Income from provision of services	6,710	-	6,710	47,292	-	47,292
Rental income from lease of container houses	3,418	-	3,418	-	-	-
Interest income from money lending business	2,386	-	2,386	2,783	-	2,783
	12,514	-	12,514	50,075	14	50,089

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. SEGMENT INFORMATION

Information reported to the chairman of the board (being the chief executive decision maker) for the purposes of resources allocation and assessment of segment performance focuses on the type of goods and services delivered. No operating segments identified by the chief operating decision maker has been aggregated in arriving at the reportable segments of the Group.

Continuing operations:

- (i) Forestry Business — plantation, logging and sale of timber related products
- (ii) Container Houses Business — provision of services in relation to management, leasing, sale and installation of container houses and related business
- (iii) Money Lending Business — provision of money lending services

Discontinued operations:

Biomass Fuel Business — manufacture and sale of biomass fuel products

Information regarding the above segments for the six months ended 30 June 2018 and 2017 is presented below.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segments:

Six months ended 30 June 2018

	Continuing Operations				Discontinued Operations	Total RMB'000 (unaudited)
	Forestry Business RMB'000 (unaudited)	Container Houses Business RMB'000 (unaudited)	Money Lending Business RMB'000 (unaudited)	Sub-total RMB'000 (unaudited)	Biomass Fuel Business RMB'000 (unaudited)	
Segment revenue	-	10,128	2,386	12,514	-	12,514
Segment profit (loss)	(1,113)*	(9,721)*	1,745	(9,089)	-	(9,089)
Bank interest income						11
Other unallocated income						931
Loss on early repayment of promissory notes						(6,160)
Other unallocated expenses						(5,232)
Finance costs						(15,292)
Loss before tax						(34,831)
Income tax credit						1,629
Loss for the period						(33,202)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2017

	Continuing Operations				Discontinued Operations	Total RMB'000 (unaudited)
	Forestry Business RMB'000 (unaudited)	Container Houses Business RMB'000 (unaudited)	Money Lending Business RMB'000 (unaudited)	Sub-total RMB'000 (unaudited)	Biomass Fuel Business RMB'000 (unaudited)	
Segment revenue	-	47,292	2,783	50,075	14	50,089
Segment profit (loss)	(3,158)*	30,479#	2,298	29,619	(1,142)	28,477
Bank interest income						8
Other unallocated income						587
Gain on change in fair value of contingent consideration payable						4,299
Loss on early repayment of promissory notes						(5,913)
Loss on redemption of convertible bonds						(203)
Other unallocated expenses						(24,245)
Finance costs						(13,858)
Loss before tax						(10,848)
Income tax expense						(8,593)
Loss for the period						(19,441)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. SEGMENT INFORMATION (CONTINUED)

		Six months ended	
		30 June	30 June
		2018	2017
		RMB'000	RMB'000
		(unaudited)	(unaudited)
*	Segment loss of Forestry Business before net loss on change in fair value less costs to sell of plantation forest assets	(1,113)	(929)
	Net loss on change in fair value less costs to sell of plantation forest assets	-	(2,229)
	Segment loss of Forestry Business	(1,113)	(3,158)
#	Segment profit of Container Houses Business before amortisation of other intangible assets	3,684	43,884
	Amortisation of other intangible assets	(13,405)	(13,405)
	Segment (loss) profit of Container Houses Business	(9,721)	30,479

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

5. SEGMENT INFORMATION (CONTINUED)

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

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Segment assets		
Forestry Business	540,512	540,834
Container Houses Business	125,437	178,256
Money Lending Business	66,656	71,877
Total segment assets	732,605	790,967
Unallocated assets	37,862	61,277
Total consolidated assets	770,467	852,244
Segment liabilities		
Forestry Business	3,074	3,083
Container Houses Business	2,309	1,026
Money Lending Business	53,124	52,664
Total segment liabilities	58,507	56,773
Unallocated liabilities	361,898	409,077
Total consolidated liabilities	420,405	465,850

6. INVESTMENT AND OTHER INCOME

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Continuing operations RMB'000 (unaudited)	Discontinued operations RMB'000 (unaudited)	Total RMB'000 (unaudited)	Continuing operations RMB'000 (unaudited)	Discontinued operations RMB'000 (unaudited)	Total RMB'000 (unaudited)
Bank interest income	11	-	11	6	2	8
Sundry income	931	-	931	587	-	587
	942	-	942	593	2	595

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

7. OTHER GAINS AND LOSSES

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	operations	operations		operations	operations	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Gain on change in fair value of contingent consideration payable	-	-	-	4,299	-	4,299
Net loss on change in fair value less costs to sell of plantation forest assets	-	-	-	(2,229)	-	(2,229)
Loss on early repayment of promissory notes	(6,160)	-	(6,160)	(5,913)	-	(5,913)
Loss on redemption of convertible bonds	-	-	-	(203)	-	(203)
Exchange gains, net	1,822	-	1,822	808	-	808
	(4,338)	-	(4,338)	(3,238)	-	(3,238)

8. FINANCE COSTS

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
	operations	operations		operations	operations	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Interest on:						
– promissory notes payable	7,534	-	7,534	6,311	-	6,311
– corporate bonds payable	7,758	-	7,758	6,530	-	6,530
– convertible bonds	-	-	-	1,017	-	1,017
	15,292	-	15,292	13,858	-	13,858

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

9. LOSS BEFORE TAX

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Loss before tax has been arrived at after charging:						
Directors' emoluments	825	-	825	815	-	815
Other staff costs	3,294	-	3,294	2,617	657	3,274
Retirement benefits scheme contributions, excluding directors	208	-	208	137	38	175
Total staff costs	4,327	-	4,327	3,569	695	4,264
Amortisation of prepaid land lease payments	410	-	410	452	-	452
Amortisation of other intangible assets	13,405	-	13,405	13,405	-	13,405
Cost of inventories recognised	-	-	-	-	10	10
Depreciation of property, plant and equipment	3,458	-	3,458	43	217	260
Operating lease rentals in respect of rented premises	1,946	-	1,946	1,862	61	1,923

10. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June 2018			Six months ended 30 June 2017		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Hong Kong Profits Tax	175	-	175	292	-	292
PRC Enterprise Income Tax	1,547	-	1,547	11,652	-	11,652
Current tax	1,722	-	1,722	11,944	-	11,944
Deferred tax credit	(3,351)	-	(3,351)	(3,351)	-	(3,351)
Income tax (credit) expense	(1,629)	-	(1,629)	8,593	-	8,593

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

10. INCOME TAX (CREDIT) EXPENSE (CONTINUED)

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2017: 16.5%) on the estimated assessable profits for the period.

Pursuant to the laws 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.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Pursuant to the Implementation Regulation of the EIT Law, the Group’s PRC subsidiaries which are engaged in forestry business are entitled to full exemption from PRC Enterprise Income Tax in respect of both of the periods presented.

11. DISCONTINUED OPERATIONS

On 29 December 2017, the Company disposed of 100% equity interest in a subsidiary, Rongxuan Forestry Investment Holdings Limited and its subsidiaries (together the “**Rongxuan Group**”) for a cash consideration of RMB1,800,000. On the same date, the Group discontinued its business of biomass fuel business undertaken by the Rongxuan Group. An analysis of the loss for the period from the discontinued operations is as follows:

		Six months ended 30 June	
		2018	2017
	<i>Notes</i>	RMB’000	RMB’000
		(unaudited)	(unaudited)
Revenue	4	–	14
Cost of sales		–	(10)
Gross profit		–	4
Investment and other income	6	–	2
Administrative expenses		–	(1,148)
Loss before tax	9	–	(1,142)
Income tax expense		–	–
Loss for the period attributable to owners of the Company		–	(1,142)

12. DIVIDEND

No dividends were paid or declared during the interim period. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

13. LOSS PER SHARE

The calculation of loss per share attributable to the owners of the Company is based on the following data:

		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Loss			
(i)	From continuing and discontinued operations		
	Loss for the purpose of basic loss per share		
	Loss for the period attributable to the owners of the Company	(33,202)	(19,441)
	Effect of dilutive potential ordinary shares:		
	– Interests on convertible bonds	–	1,017
	– Loss on redemption of convertible bonds	–	203
	Loss for the purpose of diluted loss per share	N/A	N/A
(ii)	From continuing operations		
	Loss for the purpose of basic loss per share		
	Loss for the period attributable to the owners of the Company	(33,202)	(18,299)
	Effect of dilutive potential ordinary shares:		
	– Interests on convertible bonds	–	1,017
	– Loss on redemption of convertible bonds	–	203
	Loss for the purpose of diluted loss per share	N/A	N/A

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

13. LOSS PER SHARE (CONTINUED)

	Six months ended 30 June	
	2018 '000	2017 '000 (restated)
Number of shares		
From continuing and discontinued operations and from continuing operations		
Weighted average number of ordinary shares for the purpose of basic loss per share	4,700,728	3,921,231
Effect of dilutive potential ordinary shares:		
Convertible bonds	-	38,377
Weighted average number of ordinary shares for the purpose of diluted loss per share	4,700,728	3,959,608

Note:

- (a) The weighted average number of ordinary shares for both of the periods shown above is calculated after taking account of the effect arising from the rights issue of shares of the Company made subsequent to the end of the current period.
- (b) The computation of diluted loss per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for the six months ended 30 June 2018 and 30 June 2017. Diluted loss per share for the six months ended 30 June 2018 and 30 June 2017 are not presented because the Group sustained a loss for the period and the impact of conversion of convertible bonds, if any, is regarded anti-dilutive.

14. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group had not acquired any property, plant and equipment (six months ended 30 June 2017: RMB46,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

15. PLANTATION FOREST ASSETS

	Dali Forest	Hengchang Forest	Kunlin Forest	Senbo Forest	Ruixiang Forest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (audited)	18,007	192,021	53,902	78,275	-	342,205
Acquisition during the period	-	-	-	-	117,114	117,114
Changes in fair value						
less costs to sell	1,993	2,755	(1,302)	(5,675)	-	(2,229)
At 30 June 2017 (unaudited)	20,000	194,776	52,600	72,600	117,114	457,090
Harvested timber transferred to cost of inventories sold	-	(9,033)	(3,117)	-	-	(12,150)
Changes in fair value						
less costs to sell	100	20,257	5,917	(6,300)	25,886	45,860
De-recognised on disposal of subsidiaries	(20,100)	-	-	-	-	(20,100)
At 31 December 2017 and at 1 January 2018 (audited)	-	206,000	55,400	66,300	143,000	470,700
Additions	-	274	-	-	-	274
At 30 June 2018 (unaudited)	-	206,274	55,400	66,300	143,000	470,974

(a) Dali Forest

On 11 July 2012, the Group acquired the entire equity interests in Rongxuan Forestry Investment Holdings Limited (“**Rongxuan**”) and its subsidiaries (collectively referred to as the “**Rongxuan Group**”) which principally holds plantation forest assets in Dali, Yunnan Province, the PRC (“**Dali Forest**”). The Dali Forest was disposed of during the six months ended 31 December 2017.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

15. PLANTATION FOREST ASSETS (CONTINUED)

(b) Hengchang Forest

On 28 May 2013, the Group acquired the entire equity in China Timbers Limited (“**China Timbers**”) and its subsidiaries (collectively referred to as the “**China Timbers Group**”) which are principally engaged in the operation and management of the forest in Jiange County, Sichuan Province in the PRC (“**Hengchang Forest**”). The Hengchang Forest had a total leasehold land base of approximately 21,045 Chinese Mu (equivalent to approximately 1,403 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Hengchang Forest. During the period under review, no timber logs in respect of the Hengchang Forest were harvested (six months ended 30 June 2017: nil). As at 30 June 2018, the Hengchang Forest is estimated to comprise approximately 1,389 hectares of cypress trees with approximately 13 hectares of tree plantations aged 40 years or older.

(c) Kunlin Forest

On 26 February 2016, the Group acquired the entire equity interests in Exceed Target Investment Group Limited (“**Exceed Target**”) and its subsidiaries (collectively referred to as the “**Exceed Target Group**”) which are principally engaged in the operation and management of the forest in Zhengxing Town, Jiange County, Sichuan Province in the PRC (“**Kunlin Forest**”). The Kunlin Forest had a total leasehold land base of approximately 9,623 Chinese Mu (equivalent to approximately of 641.5 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Kunlin Forest. During the period under review, no timber logs in respect of the Kunlin Forest were harvested (six months ended 30 June 2017: nil). As at 30 June 2018, the Kunlin Forest is estimated to comprise approximately 641.5 hectares of cypress trees with no tree plantations aged 40 years or older.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

15. PLANTATION FOREST ASSETS (CONTINUED)

(d) **Senbo Forest**

On 11 October 2016, the Group acquired the entire equity interest in Huxiang International Holdings Limited (“**Huxiang**”) and its subsidiaries (collectively referred to as the “**Huxiang Group**”) which principally holds plantation forest assets in Yixing Town, Jiange County, Sichuan Province, the PRC (“**Senbo Forest**”). The Senbo Forest had a total leasehold land base of approximately 13,218 Chinese Mu (equivalent to approximately 881 hectares). All of the forestry ownership certificates for the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Senbo Forest. During the period under review, no timber logs in respect of the Senbo Forest were harvested (six months ended 30 June 2017: nil). As at 30 June 2018, the Senbo Forest is estimated to comprise of approximately 881 hectares of cypress with approximately 290 hectares of tree plantations aged 40 years or older.

(e) **Ruixiang Forest**

On 6 June 2017, the Group acquired the entire equity interest in Garden Glaze Limited (“**Garden Glaze**”) and its subsidiaries (collectively referred to as the “**Garden Glaze Group**”) which principally holds plantation forest assets in Longyuanzhen, Houshixiang and Dianzixiang Town, Jiange County of the Sichuan Province in the PRC (“**Ruixiang Forest**”). The Ruixiang Forest had a total leasehold land base of approximately 30,653 Chinese Mu (equivalent to approximately 2,043.5 hectares). All of the forestry ownership certificates of the plantation forest assets were obtained. The Group conducted various activities for assessing the species mix and forest volume of the Ruixiang Forest. During the period under review, no timber logs in respect of the Ruixiang Forest were harvested (six months ended 30 June 2017: nil). As at 30 June 2018, the Ruixiang Forest is estimated to comprise approximately 2,043.5 hectares of cypress trees with approximately 14 hectares of tree plantations with aged 40 years or older.

(f) **Valuation of plantation forest assets**

Management is of the view that the fair value less cost to sell of the Group’s plantation forest assets at 30 June 2018 approximates those as at 31 December 2017 and that there has been no significant change in fair value of the Group’s plantation forest assets since 31 December 2017.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

15. PLANTATION FOREST ASSETS (CONTINUED)

(g) Other risks associated with the plantation forest assets

(i) *Regulatory and environmental risks*

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

(ii) *Climate and other risks*

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by the local forestry authorities. Other than the above-mentioned quotas, the Group's revenue also depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. The Group's standing timbers are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

(iii) *Supply and demand risk*

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

16. TRADE AND OTHER RECEIVABLES

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Trade receivables	15,058	36,077
Other receivables	61,598	88,019
	76,656	124,096

The Group generally allows an average credit period of 90 days (31 December 2017: 90 days) to its trade customers, where partial payment in advance is normally required. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice dates:

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(unaudited)	(audited)
0–90 days	4,377	28,182
91–180 days	6,516	3,082
181–365 days	4,165	4,523
more than 365 days	–	290
	15,058	36,077

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

17. OTHER PAYABLES

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Consideration payable for acquisition of subsidiary	7,350	7,350
Other payables	11,234	6,349
Amounts due to former subsidiaries	58,056	57,604
Accrued charges	1,662	2,020
	78,302	73,323

18. PROMISSORY NOTES PAYABLE

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Promissory notes payable		
– issued on 28 May 2013 (Note a)	14,957	22,560
– issued on 6 June 2017 (Note b)	19,835	65,475
– issued on 21 November 2017 (Note c)	85,132	80,397
	119,924	168,432
Carrying amount of promissory notes payable		
– Within one year	34,792	22,560
– More than one year, but not exceeding two years	85,132	145,872
	119,924	168,432
Less: Amount shown under current liabilities	(34,792)	(22,560)
Amount shown under non-current liabilities	85,132	145,872

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

18. PROMISSORY NOTES PAYABLE (CONTINUED)

Notes:

(a) **Promissory note issued on 28 May 2013 (the “Note A”)**

On 28 May 2013, the Company issued the Note A with the principal amount of HK\$144,000,000 as part of the consideration for the acquisition of the entire interest in China Timbers and its subsidiaries.

The Note A, which is unsecured, carries interest at 3% per annum for the first two years from the date of issue and 8% per annum thereafter, and is payable on the maturity date of 28 May 2018 at its principal amount.

On 23 May 2018, the Company has entered into a supplemental deed to amend certain terms and conditions of the Note A with the corresponding noteholders, pursuant to which the parties thereto agreed to extend the maturity date of the Note A with the principal amount of HK\$27,503,000 from 28 May 2018 to 28 August 2018.

During the current period, the Company redeemed part of the Note A with the principal amount of HK\$9,762,000 for cash consideration of RMB8,000,000 and the Note A with the principal amount of HK\$17,741,000 remained outstanding as at that date.

(b) **Promissory note issued on 6 June 2017 (the “Note B”)**

On 6 June 2017, the Company issued the Note B with the principal amount of HK\$170,000,000 as the consideration for the acquisition of the entire interest in Garden Glaze and its subsidiaries.

The Note B is unsecured, carries interest at 5% per annum and is payable on the maturity date on 5 June 2019. During the current period, the Company redeemed part of the Note B with the principal amount of HK\$60,000,000 for a total cash consideration of HK\$60,000,000, and the Note B with the principal amount of HK\$23,800,000 (31 December 2017: HK\$83,800,000) remained outstanding.

(c) **Promissory note issued on 21 November 2017 (the “Note C”)**

On 21 November 2017, the Company issued the Note C with the principal amount of RMB95,000,000 as part of the consideration for acquisition of the entire interest in Xiangyin Chong Sheng Chi Yip Limited.

The Note C is unsecured, carries interest at 3.5% per annum and is payable on the maturity date of 20 November 2019. No part of the Note C was repaid by the Company during the six months ended 30 June 2018, and the Note C with the principal amount of RMB95,000,000 (31 December 2017: RMB95,000,000) remained outstanding.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

19. CORPORATE BONDS PAYABLE

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Unsecured corporate bonds payable:		
– Within one year	16,286	–
– More than one year, but not exceeding two years	50,862	44,869
– More than two years, but not exceeding five years	101,295	122,579
– More than five years	42,043	41,126
	210,486	208,574
Less: Amount shown under current liabilities	(16,286)	–
Amount shown under non-current liabilities	194,200	208,574

The corporate bonds, which carry interest at interest rates ranged from 4% to 10% per annum, are wholly repayable by the Company at the end of the maturity period of 2 years to 8 years from the respective dates of issue.

During the six months ended 30 June 2018, no unsecured corporate bonds were issued or repaid by the Company. As at 30 June 2018, the unsecured corporate bonds with the aggregate principal amount of HK\$253,200,000 (31 December 2017: HK\$253,200,000) remained outstanding.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

20. CONVERTIBLE BONDS PAYABLE

During the six months ended 30 June 2016, the Company issued unsecured convertible bonds with aggregate principal amounts of HK\$34,000,000, which gave rise to a total proceeds of HK\$33,869,000 (before expenses), analysed as below:

Movements of the liability, derivative and equity components of the convertible bonds during the six months ended 30 June 2017 are set out below:

	Liability component	Derivative component	Equity component
	RMB'000	RMB'000	RMB'000
At 1 January 2017 (audited)	18,292	(206)	3,298
Interest charge for the period (<i>Note 8</i>)	1,017	–	–
Interest paid during the period	(1,414)	–	–
Redeemed during the period	(17,749)	203	(3,298)
Exchange realignment	(146)	3	–
At 30 June 2017 (unaudited)	–	–	–

On 11 April 2017, the remaining part of the convertible bonds with the principal amount of HK\$20,000,000 was redeemed at the consideration of HK\$20,000,000.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

21. SHARE CAPITAL

	Number of ordinary shares '000	Nominal amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.002 per share		
At 1 January 2017 (audited)	5,000,000	10,000
Increase in authorised share capital	45,000,000	90,000
At 30 June 2017 (unaudited), 31 December 2017 (audited) and 30 June 2018 (unaudited)	50,000,000	100,000

	Number of ordinary shares '000	Nominal amount HK\$'000	Carrying amount RMB'000
<i>Issued and fully paid:</i>			
Ordinary shares of HK\$0.002 per share			
At 1 January 2017 (audited) and 30 June 2017 (unaudited)	3,678,453	7,357	6,239
Issue of shares on placement of shares (Note a)	668,914	1,338	1,156
Issue of shares on fulfilment of profit guarantee (Note b)	62,321	124	106
At 31 December 2017 (audited) and 30 June 2018 (unaudited)	4,409,688	8,819	7,501

Notes:

- (a) On 28 June 2017, the Company entered into an agreement with a financial institution, pursuant to which 668,914,000 new ordinary shares of the Company were issued at a price of HK\$0.11 per share on 20 July 2017, giving rise to a gross proceed at HK\$73,580,000 (before expense).
- (b) On 6 October 2017, the Company issued approximately 62,321,000 new ordinary shares upon fulfilment of the profit guarantee in connection with the acquisition of a subsidiary.

22. PLEDGE OF ASSETS

As at 30 June 2018 and 31 December 2017, there was no pledge of assets of the Group.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

23. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed on 15 September 2009 for the primary purpose of providing incentives to selected participants, including directors and eligible employees. Under the Scheme, the board of directors of the Company may grant option to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Pursuant to the ordinary resolution passed at the extraordinary general meeting of the Company held on 28 May 2015, certain scheme mandate limits of the Scheme were refreshed and renewed.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

A nominal consideration of HK\$1 is payable on the grant of an option. The period within which the option must be exercised will be specified by the Company at the time of grant. Such period must expire no later than 10 years from the relevant date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

23. SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

Six months ended 30 June 2018

No share options were granted, exercised, forfeited or cancelled during the six months ended 30 June 2018. Movements of the share options granted during the six months ended 30 June 2018 are as follows :

	Exercise price per share HK\$	Date of grant	Number of share options granted					Outstanding at 30 June 2018
			Outstanding at 1 January 2018	Movements during the year				
				Granted	Exercised	Forfeited	Expired	
Directors	0.087	1 December 2017	10,000,000	-	-	-	-	10,000,000
Other participants	0.087	1 December 2017	329,843,000	-	-	-	-	329,843,000
			339,843,000	-	-	-	-	339,843,000
Exercisable at the end of the period								339,843,000
Weighted average exercise price per share			HK\$0.087	-	-	-	-	HK\$0.087

Note: Upon completion of the rights issue of shares as referred to note 26(b), the exercise price of the outstanding share options and the number of shares to be allotted and issued upon full exercise of subscription rights attaching to the outstanding share options shall be adjusted to HK\$0.082 and 360,564,839 shares respectively with effect from 3 August 2018.

Year ended 31 December 2017

Movements of the share options granted during the year ended 31 December 2017 are as follows:

	Exercise price per share HK\$	Date of grant	Number of share options granted					Outstanding at 31 December 2017
			Outstanding at 1 January 2017	Movements during the year				
				Granted	Exercised	Forfeited	Expired	
Directors	0.087	1 December 2017	-	10,000,000	-	-	-	10,000,000
Other participants	0.087	1 December 2017	-	329,843,000	-	-	-	329,843,000
			-	339,843,000	-	-	-	339,843,000
Exercisable at the end of the year								339,843,000
Weighted average exercise price per share			-	HK\$0.087	-	-	-	HK\$0.087

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

24. OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises under operating lease arrangements with leases negotiated for an average term of three to five years (31 December 2017: three to five years) and rentals are fixed over the lease term.

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

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Within one year	3,804	3,948
In the second to fifth years inclusive	5,929	7,744
	9,733	11,692

25. RELATED PARTY TRANSACTIONS

In additions to the transactions with related parties disclosed elsewhere in the condensed consolidated interim financial statements, the Group entered into the following related party transactions during the period.

Remuneration of directors and other members of key management:

	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Salaries and other allowances	1,571	1,576
Retirement benefits scheme contributions	7	8
	1,578	1,584

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2018

26. EVENTS SUBSEQUENT TO THE END OF REPORTING PERIOD

- (a) On 13 August 2018, the Company entered into an acquisition agreement with certain third parties under which the Company has conditionally agreed to acquire the entire interest in Today Bridge Limited (“**Today Bridge**”) for an aggregate consideration of HK\$166,000,000 which will be satisfied by (i) the payment in cash of HK\$131,900,000 with (ii) the remaining balance of HK\$34,100,000 by the issue of promissory notes with the principal amount of HK\$34,100,000 by the Company. Today Bridge, through its subsidiary, which is principally engaged in the operation of tree plantations, sale and plantation of Chinese herbs and providing consultation services of seedlings technology. Completion of the acquisition of Today Bridge has taken place on 24 August 2018.
- (b) On 25 January 2018, the Company proposed to raise not less than approximately HK\$344 million and not more than approximately HK\$380 million, before expenses, by way of rights issue of not less than 6,614,532,249 rights shares and not more than 7,311,260,104 rights shares to the shareholders at a subscription price of HK\$0.052 per rights share on the basis of three rights shares for every two existing shares held. On 19 March 2018, the Company announced that the number of rights shares under the rights issue was revised to not less than 6,614,532,249 rights shares and not more than 7,124,296,332 rights shares with the other terms of the rights issue remain unchanged. On 3 August 2018, 6,614,532,249 new shares of HK\$0.002 each were issued by the Company pursuant to the terms of the rights issue, giving rise to a gross proceed of approximately HK\$344 million (before expense).
- (c) As referred to in note 18, the carrying amount of the promissory notes issued on 28 May 2013 (with the principal amount of HK\$17,741,000) amounted to RMB14,957,000 were outstanding as at 30 June 2018. These outstanding promissory notes together with interest thereon were fully repaid on 28 August 2018.