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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 930)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010 AND DELAY IN DESPATCH OF ANNUAL REPORT

FINANCIAL HIGHLIGHTS

Due to the limited financial information available as stated in note 2 to the results announcement – Basis of presentation and most of the former key accounting personnel have left without notice, the directors were unable to obtain sufficient documentary information to ensure the genuineness and completeness of books and records. As a result, the Board of Directors is unable to represent as to the completeness, existence and accuracy of identification and the disclosures of the financial statements.

Accordingly, the auditors of the Company will issue a disclaimer of opinion on the financial statements as they are unable to (i) obtain sufficient audit evidence on the authenticity of accounting records and documentation; (ii) carry out satisfactory audit procedures to obtain reasonable assurance regarding the completeness, accuracy, existence, valuation, ownership, classification and disclosures of the transactions undertaken by a group company due to incomplete books and records; and (iii) perform practicable audit procedures to form an opinion on management's assessment of going concern assumptions and (iv) the financial statements do not comply with International Financial Reporting Standards or the disclosure requirements of Hong Kong Companies Ordinance and Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited due to incomplete books and records. Further details are included in the section headed "Extract of Report of the Auditors" of this results announcement.

- The Group's turnover amounted to approximately RMB1,064.0 million for the year ended 31 December 2010, representing an increase of approximately RMB270.3 million, or approximately 34.1% as compared to approximately RMB793.7 million in 2009.

- The Group's loss attributable to the equity shareholders of the Company for the year ended 31 December 2010 was approximately RMB2,711.8 million, representing a deterioration of approximately RMB3,223.4 million, as compared to the profit of approximately RMB511.6 million in 2009.

- The loss for the year mainly comprised of the change in fair value of plantation assets less costs to sell and other reconciling items amounting to approximately RMB2,020 million and the other suspense account related to the unreconciled items and unknown transactions related to the irregularities amounting to RMB1,116.4 million.

- The Group's net assets as at 31 December 2010 were valued at approximately RMB6,716.2 million, representing a decrease of approximately RMB2,878.3 million or approximately 30.0% as compared to approximately RMB9,594.5 million in 2009.

- Basic loss per share attributable to equity shareholders of the Company amounted to approximately RMB0.89 for the year ended 31 December 2010.

FINAL RESULTS

The board (the "Board") of directors (the "Directors") of China Forestry Holdings Co., Ltd. (the "Company") would like to announce the following consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 together with comparative figures for the corresponding period in 2009, as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000 (As reported)
Turnover	3	**1,064,025**	793,693
Other operating income	4	**645**	2,591
Amortisation of insurance premium		**(6,009)**	(19,901)
Amortisation of lease prepayments		**–**	(7,722)
Consultancy fees		**(17,378)**	(7,861)
Depreciation		**(2,616)**	(213)
Write down of inventories		**(120,930)**	–
Foreign exchange loss		**(14,811)**	(3,168)
Operating expenses for logging activities		**(361,652)**	(185,802)
Other operating expenses		**(56,523)**	(34,616)
Rental expenses of properties		**(3,699)**	(2,005)
Staff costs	6	**(32,796)**	(16,778)
Travelling expenses		**(4,791)**	(2,040)
Changes in fair value of plantation assets less costs to sell and other reconciling items	11	**(2,020,000)**	681,339
Cost of inventory sold		**–**	(607,995)
Other suspense account	7	**(1,116,400)**	–
(Loss)/profit from operations		**(2,692,935)**	589,522
Finance income		**1,486**	533
Finance expenses		**(20,371)**	(78,425)
Net finance costs	5	**(18,885)**	(77,892)
(Loss)/profit before taxation		**(2,711,820)**	511,630
Income tax	8	**–**	–
(Loss)/profit for the year		**(2,711,820)**	511,630
Attributable to:			
Equity shareholders of the Company		**(2,711,820)**	511,630
(Loss)/earnings per share (RMB)			
Basic and diluted	9	**(0.89)**	0.22

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010**	2009
		RMB'000	*RMB'000*
			(As reported)
(Loss)/profit for the year		**(2,711,820)**	511,630
Other comprehensive income for the year			
Exchange differences on translation of financial statements of overseas subsidiaries		**(18,632)**	(1,060)
Total comprehensive income for the year		**(2,730,452)**	510,570
Attributable to:			
Equity shareholders of the Company		**(2,730,452)**	510,570

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (As reported)
Non-current assets			
Property, plant and equipment		**19,493**	22,122
Lease prepayments	*10*	**342,163**	218,104
Plantation assets	*11*	**5,747,000**	7,767,000
Prepayment for forest acquisition		**383,484**	–
Total non-current assets		**6,492,140**	8,007,226
Current assets			
Inventories		**413,870**	–
Trade and other receivables	*12*	**50,638**	55,322
Other financial assets		**9,734**	–
Cash and cash equivalents		**2,784,673**	1,706,636
Total current assets		**3,258,915**	1,761,958
Current liabilities			
Other payables	*13*	**(1,085,998)**	(174,725)
Total current liabilities		**(1,085,998)**	(174,725)
Net current assets		**2,172,917**	1,587,233
Total assets less current liabilities		**8,665,057**	9,594,459
Non-current liabilities			
Interest-bearing borrowings		**(1,948,862)**	–
Total non-current liabilities		**(1,948,862)**	–
NET ASSETS		**6,716,195**	9,594,459
CAPITAL AND RESERVES			
Share capital		**20,797**	20,797
Reserves		**6,695,398**	9,573,662
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**6,716,195**	9,594,459

NOTES TO THE FINANCIAL STATEMENTS

1 Reporting entity

China Forestry Holdings Co., Ltd. (the "Company") was incorporated in the Cayman Islands on 21 December 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 December 2009 and have been suspended from trading since 26 January 2011.

The Group is primarily involved in the management of forests and sales of timber logs in the People's Republic of China ("PRC").

2 Basis of presentation

The financial information set out in this announcement does not constitute the Group's consolidated financial statements for the year ended 31 December 2010, but is derived from these financial statements.

The consolidated financial statements as at and for the year ended 31 December 2010 comprise the Company and its subsidiaries (collectively referred to as the "Group").

During the audit process in respect of the financial year ended 31 December 2010, irregularities have been reported by KPMG, the auditors of the Company (the "Irregularities"). Accordingly, in the interest of the Company, its shareholders and senior notes holders as a whole, on 26 January 2011 and 27 January 2011 the Company has applied for suspension of trading in the shares on the Stock Exchange and the senior notes on the Singapore Exchange Securities Trading Limited, respectively.

An independent board committee (the "Independent Committee") composed of a non-executive director who is independent to the Irregularities and two independent non-executive directors of the Company has been established to conduct an investigation into the Irregularities according to an action plan approved by the Board.

The Audit Committee has also conducted an independent forensic investigation into the Irregularities.

On 14 February 2011, the Board removed Mr. Li Han Chun ("Mr. Li") as the chief executive officer of the Company and all of his powers and duties in the Company and its subsidiaries have been ceased. On 24 February 2011, Mr. Li has been detained by the public security bureau of Guizhou Province for the alleged embezzlement of funds of approximately RMB30 million.

The Board understood that under Mr Li's supervision, the joint chief financial officer, Ms. Wu Xiao Fen ("Ms. Wu"), who was responsible for the overall accounting and financial management of the PRC subsidiaries of Group, the chief resource officer, Mr. Zhang Hong Yu ("Mr. Zhang"), who oversaw the overall forestry management and the operation of the resources management department of the Group, and certain members of the accounting and finance team and resources management department maintained more than one set of accounting records for the Company's subsidiary, Kunming Ultra Big Forestry Resource Development Co., Ltd ("Kunming Ultra Big"). Kunming Ultra Big is the Group's key operating subsidiary and account for all of the Group's reported turnover and inventory and substantially all of the Group's loss before tax and plantation assets as reported in the Group's financial statements.

With the admissions made by Mr. Li, the Board understood that all sales were conducted on cash basis and most of the sales proceeds have not been deposited into the bank accounts of Kunming Ultra Big during 2010. As advised by Mr. Li, he and his team used the proceeds from cash sales to purchase forest assets from individual farmers and to pay out the operating expenses related to harvesting activities and since the second half of 2010, he and his team have started to purchase wood logs in Northeast China. All these transactions have been recorded by daily cash books (the "Cash Records") of Kunming Ultra Big by Mr. Li and his team who concealed the Cash Records from the Board and the auditors. Meanwhile, various falsified documents and records, including management accounts, harvesting records, bank statements and bank pay in slips were presented by Mr. Li and his team to the auditors for examination during the process of audit with a view to creating an illusion that all the sales proceeds have been properly received and deposited into the bank accounts of Kunming Ultra Big and that cash had been properly paid out for the acquisitions of forest assets from the bank accounts of Kunming Ultra Big.

Ms. Wu, Mr. Zhang and certain members of the accounting and finance team and resources management department have not reported for work since mid-February 2011 and they are now not contactable.

Following Mr. Li's admissions to the Board, the Independent Committee was able to locate the Cash Records but has not been able to locate the related supporting documents of Kunming Ultra Big for the year ended 31 December 2010 or the Cash Records or related supporting documents relating to before 2010.

Given the questionable reliability of the Cash Records we found and the absence of Mr. Li, Ms. Wu and Mr. Zhang to explain and validate the true state of affairs of 31 December 2010 for Kunming Ultra Big, it will be extremely difficult and time consuming to ascertain the true and correct financial position and profit or loss of 31 December 2010 for Kunming Ultra Big. In the Board's opinions, any reconstruction of the correct accounting records will also be almost impossible as it will be necessary to verify the information with external and independent sources and such sources may not be available or may be unreliable due to their connections with Mr. Li, Ms. Wu and Mr. Zhang or those responsible for the falsified accounts and financial information within and outside of the Group.

Given the significant doubts as to the accuracy and reliability of any records or documents found by the Independent Committee during the investigation process for the subsidiaries established in the PRC, the Independent Committee, in their review, has had to rely on bank statements they independently obtained from the respective banks, physical stock take conducted by professional parties and direct confirmations from respective local forest bureaus and legal opinion from PRC legal advisers regarding the legal titles and ownership of the plantation assets of the Group. It has not been possible to separately and independently verify every one of the transactions that have transpired for the year ended 31 December 2010. From the limited review that the Independent Committee has completed in tracking the cash flows of the PRC subsidiaries, the Independent Committee has identified that there were numerous payments that could not be properly or clearly explained. The above revelation, in view of the Board, casts serious doubts over the reliability and accuracy of the accounting records presented in past years, and of the financial statements of the Company and of the Group for the current and prior years. As a consequence, the Board has reason to believe that the financial statements in previous years might not reflect the true and fair view of the Company's financial performance and position. Due to loss of some books and records, and lack of cooperation from Mr. Li, Ms. Wu and Mr. Zhang the Board believes that it is almost impossible and not practical to verify the financial information as reported in the consolidated financial statements of the Group for the current and past years.

As of the date of this announcement, the management has used its best effort, to the extent commercially practicable, to reconstruct the accounting records of the Group for the year ended 31 December 2010, applying their best estimates and judgement based on the information of the Group that are available to the management. However, given the loss of some books and records and serious doubts over the reliability of the Group's accounting and other records, the Board believes that, as at the date of this announcement, it is almost impossible and not practical to ascertain the correct revenue and profit or loss (and the resultant assets and liabilities) for the current year for inclusion in the consolidated financial statements of the Group. Also, due to loss of some books and records, the Board believes that it is almost impossible and not practical, to verify the financial information as reported in the consolidated financial statements of the Group for past years. Accordingly, the comparative financial information disclosed in the financial statements only represents such information as was reported in the published 2009 financial statements and therefore may not be comparable with the figures for the current year.

Due to limited books of account and records available to the Directors, the following disclosures have not been made in the consolidated financial statements:

– Details of the Group's credit policy and aging of debtors and creditors as required by the Rules Governing the listing of securities on the Stock Exchange ("Listing Rules");

– Details of lease terms of land as required by the Hong Kong Companies Ordinance;

– Details of contingent liabilities and commitments as required by the Hong Kong Companies Ordinance and International Financial Reporting Standards ("IFRSs");

– Details of allowance account for credit losses, financial risk management and fair value disclosure as required by IFRS 7, Financial Instruments – Disclosures;

– Entity-wide disclosures as required by IFRS 8, Operating Segments;

– Gross carrying amount and the accumulated depreciation at the beginning and end of the year and reconciliation of the carrying amount of property, plant and equipment as required by IAS 16, Property, plant and equipment; and

– Reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current year and estimates of the physical quantities of biological asset at the year end and output of agricultural produce during the period as required by IAS 41, Agriculture.

Due to insufficient information available to the Directors, the consolidated financial statements do not contain a consolidated cash flow statements as required by IAS 7, Statement of Cash Flows.

Any adjustments arising from the matters described above would have a consequential significant effect on the net loss of the Group for the year ended 31 December 2010 and net assets of the Group as at 31 December 2010.

Due to the limited financial information available and most of the former key accounting personnel of the Group have left without notice, the Directors were unable to obtain sufficient documentary information to satisfy themselves regarding the genuineness and completeness of books and records and the treatment of various balances as included in the consolidated financial statements for the year ended 31 December 2010 and have formed the opinion as follows:

As the consolidated financial statements have been prepared based on the incomplete books and records available to the Company, the Directors are unable to represent that all transactions entered into by the Group for the year ended 31 December 2010 have been properly reflected in the consolidated financial statements. In this connection, the Directors are also unable to represent as to the completeness, existence and accuracy of identification and the disclosures of turnover, other operating income and expenses, staff costs, income tax, (loss)/profit attributable to equity shareholders of the Company, (loss)/earnings per share, property, plant and equipment, lease prepayments, plantation assets, prepayment for forest acquisition, inventories, trade and other receivables, cash and cash equivalents, other payables, capital, reserves and dividends and related party disclosures.

As per assessment of the Board, based on the investigations carried out by the Independent Committee and Audit Committee and the information available at this stage, all identified, required adjustments have been put through in the financial statements for the year ended 31 December 2010. Since the investigations are on-going, any further adjustments and disclosures, if required, would be made in the financial statements of the Company as and when the outcome of the above uncertainties is known and the consequential adjustments and disclosures are identified, and would have a consequential effect on the net loss of the Group for the year ended 31 December 2010 and net assets of the Group as at 31 December 2010.

The Company issued US$300 million 7.75% Senior Notes on 22 November 2010. The senior notes were subject to the fulfilment of certain financial and non-financial covenants. Given the matters as mentioned above, we are not able to predict any action that may be taken by the Senior Notes holders and the consequential impact to the Group. These conditions indicate the existence of uncertainties which may cast doubt on the Group's ability to continue as a going concern. However, the Board believes that the Group has sufficient financial resources to pay off all existing loans and payables, expenses and carry on its operation for the foreseeable future, as such, the financial statements have been prepared on a going concern basis.

3 Turnover

Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts, derived from the Cash Records of Kunming Ultra Big for the year ended 31 December 2010 found by the Independent Committee.

As disclosed in note 2, various falsified documents and sales records were presented by Mr. Li and his team. Mr. Li was removed by the Board in February 2011. Ms. Wu, Mr. Zhang and certain key members of accounting and finance team and resources management department have not reported to work since mid-February 2011 and they are not contactable. The Board is therefore unable to locate all of the relevant sales records for the current and prior years.

Given the loss of some books and records, the doubt on reliability of Cash Records found and the absence of key personnel, the Board believes that it may be almost impossible, and not practical, to ascertain the completeness, existence and accuracy of the turnover of the Group.

4 Other operating income

	2010	2009
	RMB'000	*RMB'000*
		(As reported)
Government grants	**484**	656
Other trading income	**137**	1,934
Others	**24**	1
	645	2,591

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the other operating income as of the date of approval of this announcement.

5 Net finance costs

	2010	2009
	RMB'000	*RMB'000*
		(As reported)
Interest income from available-for-sale securities	**1,884**	–
Interest income earned from deposits with bank	**1,862**	533
Gain on disposal of available-for-sale securities	**3,128**	–
Interest paid or payable for forest acquisition	**–**	(78,425)
Interest on borrowings wholly repayable within five years	**(20,289)**	–
Change in fair value of derivatives financial instruments	**(5,418)**	–
Others	**(52)**	–
	(18,885)	(77,892)

6 Staff costs

	2010	2009
	RMB'000	*RMB'000*
		(As reported)
Salaries, wages and other benefits	**22,002**	15,434
Contributions to defined contribution retirement schemes	**695**	1,344
Equity-settled share-based payment expenses	**10,099**	–
	32,796	16,778

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes (the "Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of 20% (2009: 20%) of the standard wages determined by the relevant authorities during the year ended 31 December 2010. Contributions to the Schemes vest immediately.

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

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

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the staff costs as of the date of approval of this announcement.

7 Other Suspense Account

As disclosed in note 2, certain documents and information could not be located and there were numerous payments that could not be clearly and properly explained. Due to the limitation of information, the comparative information has not been restated, and has been adopted as the assumed opening balance as at 1 January 2010. The "other suspense account" represents the unknown transactions and the net adjustment required to account for the differences between the opening and closing equity attributable to the shareholders for the year ended 31 December 2010 as estimated by the Directors to the best of the information available to them as of the date of approval of this announcement as disclosed in note 2, other than movement in the plantation assets.

8 Income tax in the consolidated income statement

(a) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2009 and 2010.

(b) Under the PRC tax law, the Enterprise Income Tax rate of the PRC was 25% for the year ended 31 December 2010 (2009: 25%).

As disclosed in note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the accuracy of the undistributed retained earnings of the PRC subsidiaries and hence the related unrecognised related deferred tax liabilities as of the date of approval of this announcement.

9 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the year ended 31 December 2010 is based on the loss attributable to equity shareholders of the Company of RMB2,711.8 million (2009: profit of RMB511.6 million) and weighted average number of 3,060,452,000 (2009: 2,308,694,000) ordinary shares in issue during the year. As disclosed in note 2, the loss attributable to equity shareholders of the Company may not be accurate, no representation is made by the Board as to the accuracy of the (loss)/earnings per share of the Company as of the date of approval of this announcement.

The weighted average number of ordinary shares is calculated as follows:

	2010	2009
	'000	*'000*
Issued ordinary shares as at 1 January	**3,060,452**	–
Issuance of shares on Reorganisation	**–**	35,565
Effect of capitalisation issue	**–**	2,214,435
Issuance of shares for placing and public offering	**–**	58,694
Weighted average number of ordinary shares at 31 December	**3,060,452**	2,308,694

The diluted loss per share for the year ended 31 December 2010 is the same as the basic loss per share as the potential ordinary shares are anti-dilutive.

10 Lease prepayments

	2010	2009
	RMB'000	*RMB'000*
		(As reported)
Net Book Value	**342,163**	218,104

Lease prepayments represent land use rights granted to the Group in respect of its plantation assets in the PRC. Usage of the land is regulated by the Implementation Regulations of PRC Forest Law issued by the State Council of the PRC. Owing to the loss of books and records, the Directors are unable to determine the value of the land use rights for the newly acquired forests. During this period, the Directors have applied their best estimate based on historical data to separate the value of land use rights from the total consideration of forests. Given the loss of books and records, unreliability of records found and the absence of key personnel, the Group is in the process of rebuilding the forestry data, but has not obtained adequate information regarding the lease period of the forest at the date of this announcement. The Board therefore believes that it may be almost impossible, and not practical, to ascertain the charge during the year, or the completeness and accuracy of the lease prepayments of the Group.

11 Plantation assets

	2010	2009
	RMB'000	*RMB'000*
		(As reported)
At 1 January	**7,767,000**	7,693,000
Additions	**–**	656
Harvested timber transferred to inventories	**–**	(607,995)
Changes in fair value less costs to sell and other reconciling items	**(2,020,000)**	681,339
At 31 December	**5,747,000**	7,767,000

Notes:

(i) The additions represent the consideration paid for the acquisitions of forests (excluding the land use rights) during the previous year.

(ii) As disclosed in note 2, certain documents and information could not be located and there were numerous payments that could not be clearly and properly explained. Also, due to the limitation of information, the comparative information has not been restated and has been used as the assumed opening balance as at 1 January 2010. The "changes in fair value less costs to sell and other reconciling items" amount reported for 2010 represents the net adjustments required to account for the differences between the opening and closing carrying value of plantation assets for the year ended 31 December 2010 as estimated by the directors to the best of the information available to them concerning the extent and nature of the Group's plantation assets and with the assistance of professional valuers, as disclosed in note (iii) below.

Given the loss of some books and records (including acquisition and harvesting records and detailed information of its forests), unreliability of forestry records found and the absence of key personnel, the Board believes that it may be almost impossible, and not practical, to ascertain the completeness and accuracy of the plantation assets of the Group as of the date of approval of this announcement.

(iii) The Group's plantation assets in the PRC were independently valued by Chandler Fraser Keating Limited ("CFK") based on the information available to the Directors pertaining to the extent and nature of the Group's plantation assets (see note (ii) above). CFK is a privately owned specialist forest consulting firm headquartered in New Zealand. In view of the non-availability of market value for trees in the PRC, CFK has applied the net present value approach whereby projected future net cash flows, based on its assessment of current timber log prices, were discounted at the rates of 13% (2009: 9% to 13%) for plantation assets for the year and then applied to pre-tax cash flows to provide a current market value of the plantation assets.

The principal valuation methodology and assumptions adopted are as follows:

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

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

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

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

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

– Due to the absence of the Company information, costs have been derived from external sources and discussion with the staff of the Group. The costs are current average costs. No allowance has been made for cost improvements in future operations; and

– Due to the absence of the Company information, prices have been derived from independent market information and not prices actually received by the Company.

Given the loss of some books and records, the information available is not sufficient for CFK to undertake a valuation of the plantation assets, and CFK has had to make some subjective judgements as to the stocked area, species composition and yield of the forest based upon high level inspection of a limited number of forest areas and discussions with the staff of the Group. The actual area, composition and yield of the forests is likely to be different from those subjective judgements. As a result, the actual value may be higher or lower than the value derived by CFK.

12 Trade and other receivables

	2010	2009
	RMB'000	*RMB'000*
		(As reported)
Trade debtors	**1,863**	–
Other receivables	**2,685**	1,801
Prepaid insurance premium	**–**	17,480
Other prepayments and deposits	**46,090**	36,041
	50,638	55,322

Given the loss of some books and records, unreliability of records found and the absence of key personnel, the Board believes that it may be almost impossible, and not practical, to ascertain the completeness, existence and accuracy of the trade and other receivables of the Group, or to perform a detailed analysis of the Group's trade and other receivable aging, credit policy and impairment assessment.

13 Other payables

	2010	2009
	RMB'000	*RMB'000*
		(As reported)
Payable for forest acquisitions	**641,454**	–
Other payables and accrued expenses	**444,382**	174,498
Payable to the Chairman of the Company	**162**	227
	1,085,998	174,725

Payable for forest acquisitions represents considerations to be settled for acquisition of forest in the PRC within one year. Subsequently, the Group settled approximately RMB134.5 million before 22 April 2011.

Other payables and accrued expenses include salary and staff welfare payables, VAT payables and other miscellaneous payables. As at 31 December 2010, other payables to the Chairman of the Company represents payment of listing expense made on behalf of the Group.

All payables are expected to be settled within one year or repayable on demand.

As disclosed in Note 2, on the basis that the relevant books and records are either lost or are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the other payables as at the date of approval of this announcement.

14 Personal indemnity by Mr. Li Kwok Cheong

Mr. Li Kwok Cheong, the Chairman and an executive Director, shall unconditionally and irrevocably indemnify the Company from and against all losses, liabilities, damages, deficiencies, diminution in value, interest, penalties, expenses, judgment awards or settlement of any nature or kind, and costs and expenses (including, without limitation, legal fees on a full indemnity basis) ("**Losses**") directly or indirectly suffered or incurred by the Group, save as those Losses which have been provided for in the consolidated financial statements of the Group for the year ended 31 December 2010, which was extracted in this announcement.

Having considered the equity interest in the Company held by Mr. Li Kwok Cheong, the Board believes that Mr. Li Kwok Cheong will be able to render his obligations under the above personal indemnity.

AUDIT OPINION

The auditors of the Company will issue a disclaimer of opinion on the financial statements of the Group for the year under review. An extract of the auditors' report is set out in the section headed "Extract of report of the auditors" below.

EXTRACT OF REPORT OF THE AUDITORS

"Basis for disclaimer of opinion

Authenticity of accounting records and documentation

During the course of our audit for the year ended 31 December 2010, evidence obtained by us indicated irregularities with respect to the maintenance of the Company's and the Group's accounting records and the transactions recorded therein. As disclosed in note 2 to the financial statements, our report of these concerns led to the establishment of an independent board committee of the Company ("Independent Committee"), whose findings cast serious doubts over the authenticity and reliability of records and documents of the Company and of the Group and over the reliability of the information and explanations provided to us by members of management as well as by parties external to the Group.

Given these circumstances, which are more fully described in note 2, there were no practicable audit procedures that we could perform to satisfy ourselves that the information and documents presented to us for the purpose of our audit are complete and accurate in all material respects, nor to quantify the extent of adjustments that might be necessary in respect of the Group's financial information.

Incomplete books and records

Included in the consolidated financial statements of the Group is the financial information of one of its subsidiaries, Kunming Ultra Big Forestry Resource Development Co., Ltd. ("Kunming Ultra Big"). As disclosed in note 2, Kunming Ultra Big is the Company's key operating subsidiary and accounts for all of the Group's reported turnover and inventory and substantially all of the Group's reported loss before taxation and plantation assets. As disclosed in note 2 to the financial statements, certain members of the accounting and finance team and resources management department have not reported for work since mid-February 2011 and current management has confirmed to us that the Company has been unable to contact them. As note 2 to the financial statements also discloses, the Company's directors were unable to locate all books and records of Kunming Ultra Big and were unable to unreservedly confirm its financial position, results of operations and cash flow. We were therefore unable to carry out satisfactory audit procedures to obtain reasonable assurance regarding the completeness, accuracy, existence, valuation, ownership, classification and disclosures of the transactions undertaken by Kunming Ultra Big. Accordingly, we were unable to ascertain whether the financial information of Kunming Ultra Big included in the Group's consolidated financial statements has been properly prepared in accordance with IFRSs.

Non-compliance with IFRSs and omission of disclosures

As explained in note 2 to the financial statements, as the consolidated financial statements of the Group have been prepared by the directors based on incomplete books and records and the board believes it is almost impossible and not practical to ascertain the correct amounts. Consequently, the directors of the Company were unable to represent that the financial statements comply with IFRSs, or that the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited have been complied with. Given these circumstances, which are more fully described in note 2, there were no practicable audit procedures that we could perform to quantify the extent of adjustments that might be necessary in respect of the Group's financial statements.

Going concern assessment

As explained in note 2 to the financial statements, in making their assessment of the Company's ability to continue as a going concern, the directors have considered the Group's ability to pay off all existing loans and payables and carry on its operations for the foreseeable future. However, the directors have been unable to predict the action that may be taken by the senior note holders as a result of any potential breach of financial or non-financial covenants caused by the matters disclosed in note 2, or the consequential impact to the Group. In addition, as a result of the matters disclosed in note 2, the directors are unable to represent that all present and contingent liabilities or assets of the Group have been completely identified, or that all assets recorded in the statement of financial position are recoverable or fairly stated. Given these circumstances, which are more fully described in note 2 and in the paragraphs above, there were no practicable audit procedures that we could perform to form an opinion on whether management's assessment of its ability to continue as a going concern considers all events and conditions which may be relevant.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's loss for the year then ended in accordance with International Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BUSINESS REVIEW

During the audit process in respect of the financial year ended 31 December 2010, irregularities (the "Irregularities") have been reported by KPMG, the auditors of the Group. To protect the interests of the Group and its shareholders as a whole, the Group applied for suspension of trading in the shares of the Company on 26 January 2011 and established an independent board committee comprising of a non-executive director and two independent non-executive directors of the Group to conduct an investigation into the Irregularities. The Company also suspended the staff members who may have been involved in the Irregularities from duty and enhanced its internal control to protect the Group's assets from improper transfer or misappropriation during this period of investigation.

On 14 February 2011, the Board removed Mr. Li Han Chun as chief executive officer of the Group and all of his powers and duties in the Group and its subsidiaries have ceased. At the same time, Mr. Li Jian was appointed as the acting chief executive officer. Upon investigation, the independent board committee found that Mr. Li Han Chun had embezzled funds of approximately RMB30 million, and that under his management, all the sales made by Kunming Ultra Big Resource Development Co., Ltd, the Group's key operating subsidiary, were conducted on cash basis, and the accounts had not been recorded in accordance with the applicable accounting standards.

Mr. Li Han Chun has been detained by the public security bureau of Guizhou Province since 24 February 2011, and other persons involved in this case have not reported to work and have been uncontactable since mid February 2011. In the absence of related records on and supporting documents to the cash transactions, it will be difficult for the Group to verify the information relating to each transaction entered into during the year. Accordingly, the Board could only rely on the bank statements they independently obtained from the respective banks, physical stock take conducted by professional parties, direct confirmations from respective local forest bureaus and legal opinions from PRC legal advisers regarding the legal title and ownership of the plantation assets of the Group to reconstruct the financial statements of the Group for the year ended 31 December 2010. However, due to the loss of books and records, the Board is of the view that it will be almost impossible and impractical to ascertain the true and correct financial position and profit or loss of the Group for the year ended 31 December 2010. Accordingly, the financial statements for the year ended 31 December 2010 disclosed by the Group represented the best possible estimates made based on the available information mentioned above.

On the basis of the foregoing, the Group recorded a turnover of RMB1,064,025,000 for the year ended 31 December 2010, representing an increase of 34.1% over the same period of 2009. During the year, sales volume and average selling price were not available due to the loss of some books and records. Loss attributable to equity shareholders of the Company was RMB2,711,820,000 as compared to a profit attributable to equity shareholders of RMB511,630,000 for the same period in 2009.

As at 31 December 2010, the Group owned forestry rights in respect of approximately 231,000 hectares of forests. Plantation forests owned by the Group are located in Sichuan Province, Yunnan Province and Guizhou Province of approximately 26,000 hectares, approximately 203,000 hectares and approximately 2,000 hectares respectively. All forests assets owned by the Group were valued at approximately RMB5,747 million as at 31 December 2010.

FINANCIAL REVIEW

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

Revenue

For the year ended 31 December 2010, the Group's revenue was approximately RMB1,064.0 million (2009: RMB793.7 million), representing an increase of 34.1% as compared to previous year.

Staff Cost

Staff cost increased from RMB16.8 million for the year ended 31 December 2009 to RMB32.8 million for the year ended 31 December 2010 mainly due to 42,750,000 share option granted on 7 September 2010 under the share option scheme during the year of approximately RMB10.1 million and the increment in directors' salaries.

Operating Expenses for Logging Activities

Operating expenses for logging activities consisting of cost of harvesting and forests maintenance fee associated with applying for logging permits. The cost of harvesting increased mainly due to the increase in sale for the year ended 31 December 2010.

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

The "changes in fair value less costs to sell and other reconciling items" amount reported for the year ended 31 December 2010 represented the net adjustments required to account for the differences between the opening and closing carrying value of plantation assets for the year ended 31 December 2010 as estimated by the Directors to the best of the information available to them concerning the extent and nature of the Group's plantation assets and with the assistance of professional valuers.

The changes in fair value less costs to sell and other reconciling items mainly represented the decreased in fair value of plantation assets less cost to sell for the year ended 31 December 2010, which resulted from the insufficient information available for Chandler Fraser Keating Limited ("CFK"), the independent forestry valuer appointed by the Group, to undertake a valuation of the plantation assets of the Group as at 31 December 2010. CFK has had to make some subjective judgements as to the stocked area, species composition and yield of the forest based upon high level inspection of a limited number of forest areas and discussion with the staff of the Group.

Write down of Inventories

Physical stock take and inspection has been performed by the Group together with the external professional parties in March 2011. The write down of inventories is technically determined with reference to the fair value less costs to sell as determined by external professional specialist. In general, the external professional specialist found that the logs goods were poorly organized often with different grade and size within the same row. In addition, the log stock piles were placed too close together which is difficult for the external professional specialist to take samples between the log piles in order to determine the stack factor. As a result, the stock volume stated in the valuation report prepared by external specialist only accounts for approximately 76% of the stock volume as recorded in Group's records.

Loss for the year

Loss for the year was approximately RMB2,711.8 million for the year ended 31 December 2010, representing a decrease of approximately RMB3,223.4 million as compared to the profits of approximately RMB511.6 million in 2009.

Dividend

The Board does not recommend a final dividend in respect of the year ended 31 December 2010 (2009: HK5.86 cents (equivalent to RMB5.16 cents) per share).

Liquidity and Financial Resources

As of 31 December 2010, cash and bank balances was in a sum of RMB2,784.7 million, representing a net increase of RMB1,078.0 million as compared to the position as of 31 December 2009.

Borrowing

As at 31 December 2010, the Group had the senior notes bearing interest at 7.75% per annum, and repayable on 17 November 2015.

As at 31 December 2009, the Group had no bank borrowings and, therefore, maintained a zero gearing.

Pledge of Assets

The senior notes were secured by the shares of the Company's subsidiaries incorporated in Hong Kong and BVI, and were subject to the fulfilment of covenants relating to the Group's financial ratios and capital requirements, as commonly found in lending arrangements in high yield senior notes. If the Group was to breach the covenants, the principal and, accrued and unpaid interest of the senior notes would become payable on demand. The Directors consider that none of the covenants had been breached as at 31 December 2010.

None of the Group's assets was pledged as at 31 December 2009.

Financial Instruments

The Group did not hold any financial instruments for hedging purposes for the two years ended 31 December 2009 and 2010.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group had a total of 224 employees (31 December 2009: 420 employees). For the year ended 31 December 2010, the staff cost (including directors' remuneration in the form of salaries and other benefits) was approximately RMB32.8 million (2009: RMB16.8 million). Details are set out in note 6 to this announcement.

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

PROSPECTS

2011 is the first year of the 12th Five-Year Plan of the PRC during which the Chinese Government will continue to increase the investments in infrastructure projects as appropriate. Meanwhile, the Chinese Government has committed to the construction of 10 million affordable homes by the end of 2011. Therefore, the Company anticipates that the steady growth of the PRC economy will boost the demand for timber logs, which is favorable to the sustainable growth of our businesses.

The Company aims to become a leading environmentally conscious forestry company with sustainable growth. In order to take better advantage of the rapid growth in demand for timber logs in the PRC market, the Company intends to create a vertical integration business model in phases through expansion into other fields of the forestry value chain, so as to reduce operational risk while enhancing profitability. The Company has commenced timber logs trading in Northeastern China in the first quarter of 2011. With the setting up of trading offices in Manzhouli, Inner Mongolia Autonomous Region and Yichun, Heilongjiang Province, the Company is able to expand its sales channels, sell the stock of timber logs and improve sales revenue. Benefiting from the shortage of timber logs and rising prices, the Company is hopeful that it could sell the existing stock of timber logs at a higher price to maximize revenues. Meanwhile, the Company will continue to seek long-term cooperations with downstream enterprises of the forestry value chain in order to achieve complementary advantages and enhance efficiency.

Nurturing sustainable and quality forestry resources is essential to the Company's development strategy. In 2011, the Company will adopt forestry cultivation policies focusing on conservation. Besides, the Company will focus on the development of quality forest resources in Guizhou Province. Qiandongnan People's Government of Guizhou Province demonstrated strong support to the Company for the acquisition of the domestic forestland.

In order to strengthen its internal management, the Company has made plans to set up a forestry resources acquisition committee under the Board, which is tasked with formulating strategies of forests acquisition and monitoring the progress and compliance of the acquisitions, in an effort to further improve corporate governance and management. Meanwhile, the Company will continue to introduce management and technical experts to reorganize its forestry assets, improve information system, strengthen our research and development of forest management as well as gradually expand our sales and marketing team, in order to create a strong foundation for future business growth.

2011 will be a year in which China Forestry recovers from the impact of last year's event. Notwithstanding that the Company's business and operations in the first quarter of this year have been affected by extra audit exercises which were part of the investigation commissioned by the independent board committee, the board and the Company's new senior management remain highly focused on putting the Company back on track. China Forestry is confident that its operations will steadily return to normal, enabling it to stage a stable recovery in financial performance in 2011.

CORPORATE GOVERNANCE

The Company is committed to maintaining good standards of corporate governance practices and business ethics. The Board believes that such commitment can enhance the performance of the Group and serve to enhance our shareholders' value.

The full details of corporate governance practices adopted by the Company throughout the year ended 31 December 2010 will be set out in the Corporate Governance Report in the Company's 2010 Annual Report.

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their written terms of reference are in line with the Corporate Governance Code provisions. The audit committee consists of three members, namely, Mr. Wong Tak-jun, Mr. Wang Wei Ying (resigned on 1 January 2011), Mr. Liu Can and Mr. Zhu Demiao (appointed on 1 January 2011), all of whom are independent non-executive Directors. Mr. Wong Tak-jun is the chairman of the audit committee.

The audit committee has reviewed the consolidated financial statements for the year ended 31 December 2010.

MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

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

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on both the website of the Company (www.chinaforestryholding.com) and the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2010 will be dispatched to shareholders of the Company and available on the above websites in due course.

DELAY IN DESPATCH OF ANNUAL REPORT

Pursuant to Rule 13.46(2)(a) of the Listing Rules, the Company is required to despatch the 2010 annual report no later than 30 April 2011, being fourth months after the date upon which its financial year ended.

Additional time is required by the Company to finalize the 2010 annual report. It is expected that the 2010 Annual Report will be dispatched by the Company on or before 20 May 2011.

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

Hong Kong, 29 April 2011

As at the date of this announcement, the executive directors of the Company are Mr. Li Kwok Cheong, Mr. Li Han Chun and Mr. Lin Pu, the non-executive directors of the Company are Mr. Xiao Feng, Mr. Li Zhi Tong and Mr. Meng Fanzhi, and the independent non-executive directors of the Company are Mr. Wong Tak-jun, Mr. Liu Can and Mr. Zhu Demiao.