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)

2011 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of China Forestry Holdings Co., Ltd. (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2011. This announcement, containing the full text of the 2011 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's 2011 Annual Report will be delivered to the shareholders of the Company and will be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.chinaforestryholding.com.

CHINA FORESTRY HOLDINGS CO., LTD.

中國森林控股有限公司

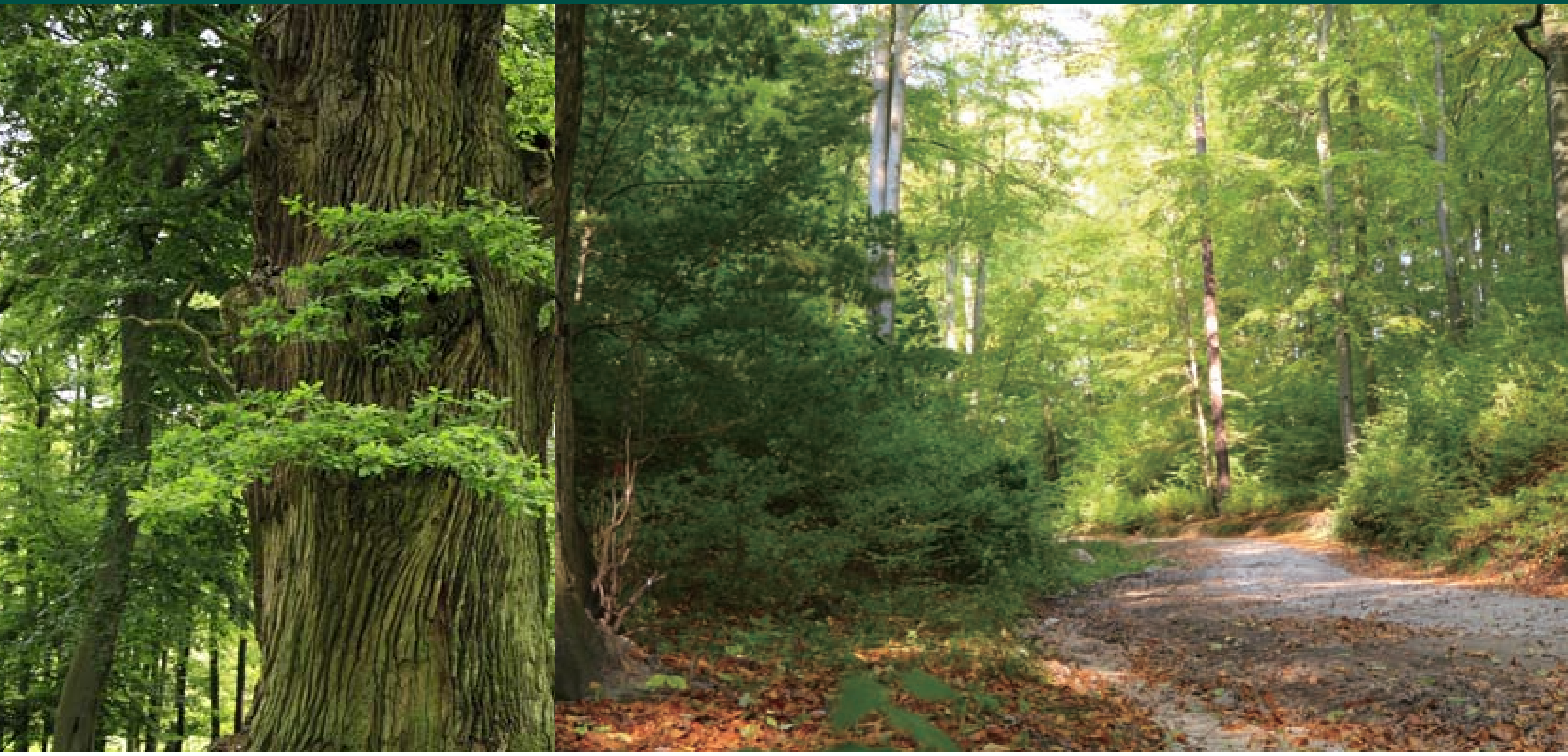
(Incorporated in the Cayman Islands with limited liability)

STOCK CODE：930

ANNUAL REPORT 2011

CORPORATE **MISSION**

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



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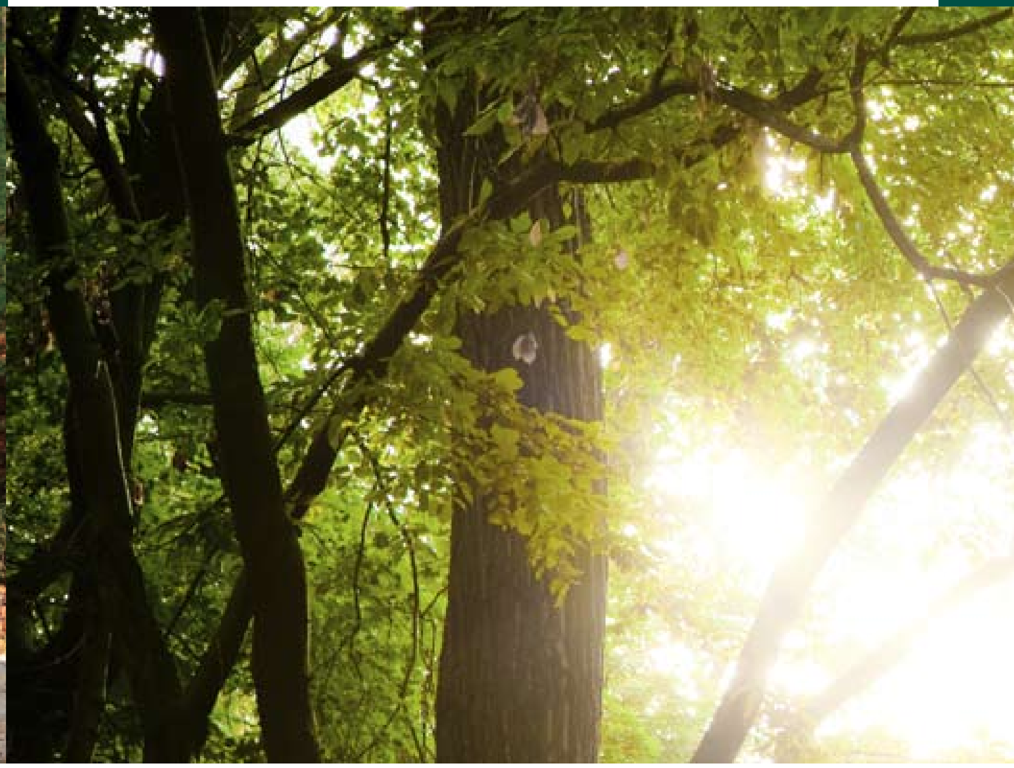

INFORMATION CORPORATE

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Kwok Cheong (Chairman)
Mr. Li Han Chun (removed on 17 February 2012)
Mr. Lin Pu

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Tak-jun
Mr. Liu Can
Mr. Zhu De Miao
Ms. Hsu Wai Man, Helen (appointed on 5 July 2011)

AUDIT COMMITTEE

Ms. Hsu Wai Man, Helen (Chairlady)
(appointed on 5 July 2011)
Mr. Wong Tak-jun
Mr. Liu Can
Mr. Zhu De Miao

REMUNERATION COMMITTEE

Mr. Wong Tak-jun (Chairman)
Mr. Xiao Feng
Mr. Zhu De Miao

NOMINATION COMMITTEE

Mr. Li Kwok Cheong (Chairman)
Mr. Liu Can
Mr. Zhu De Miao

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House 68 Fort Street
P.O. Box 609 Grand Cayman
KY1-1107 Cayman Islands

HONG KONG SHARE REGISTRAR

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

AUDITORS

Crowe Horwath (HK) CPA Limited
34/F The Lee Gardens, 35 Hysan Avenue,
Causeway Bay, Hong Kong

LEGAL ADVISERS

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

WEBSITE ADDRESS

www.chinaforestryholding.com

STOCK CODE

00930

SHARE INFORMATION

Board lot size: 2,000

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS AND STAKEHOLDERS,

The year 2011 was a tough and challenging year for the Company. In January 2011, irregularities were identified by our former auditor, which had a negative impact on the results and operation of the Company. In response to the irregularities and to protect the interests of our shareholders and creditors, the Company took a series of actions including but not limited to applying for the suspension of share and bond trading, restructuring senior notes, rebuilding a new management team and setting up an Independent Board Committee to conduct independent investigations which included a Forensic Review as well as an Internal Control Review. Last year, the Company experienced difficulties in resuming its business operations as more effort was put into the investigations and it took time to rebuild the team and for the new team to reestablish the Company's business relationships. As a result, the recovery of our business was slower than expected and harvesting and trading business were limited in 2011. In view of these challenges, the Company adopted a prudent business strategy with the aim of resuming its normal business operations. Top priority has been given to three key areas: rebuilding a strong execution team, enhancing internal control and resuming harvesting activities.

The Company put tremendous effort into conducting the Forensic Review and the Internal Control Review last year, which highlighted some critical areas that the Company needed to improve in its internal control. Measures such as the appointment of an additional independent non-executive director and several senior management members with broader and more diverse experience and expertise have been taken to strengthen corporate governance standards and improve our forestry assets management system.

The Company partially resumed its harvesting activities in the second half of 2011 and will continue to strive to bring its harvesting activities back on track. During the year, the Company focused on rebuilding its core execution team, sales force and network.

While pursuing a prudent strategy in our forest resources acquisitions, the Company also strategically entered into the downstream businesses of wood processing and wood-frame house manufacturing in order to increase revenue from the downstream forestry value chain and to diversify our operating risk from harvesting.

In April 2012, the Company acquired Manzhouli Triple Success Co. Ltd. ("Triple Success"), located in Manzhouli in the Inner Mongolia Autonomous Region, and one of the largest high-end wood processing plants

Li Kwok Cheong
Chairman

in Asia. The Company acquired Triple Success for its well recognized brand name in Japan, high quality bulk wood processing capabilities, and a strategic location in close proximity to Russia, which will generate strong synergies with our log trading business. The Company will develop Triple Success to become a bulk processor for high-end wood products, consolidate fragmented local processors by providing a wood processing platform in Northeastern China and leverage the sustainable supply of high quality wood logs from Russia. We believe that the import tax and levies on Russian wood logs will be reduced in the coming years due to Russia's recent entrance and commitments to the WTO, which will benefit Triple Success.

The Company is also strategically expanding into the wood-frame house manufacturing business. We believe that the demand for wood-frame buildings in China will accelerate in the coming years, and that this new business will leverage the Company's abundant forest reserves to ensure the stable supply of raw materials for wood-frame house construction. This initiative will become an attractive source of income and will strengthen the Company's overall profitability.

The Company is optimistic about the outlook of the forestry industry. Sustainability development, innovation and overall forestry enhancement are cited as key priorities in the Chinese government's 12th Five Year Plan. In addition, the PRC economy and the consumer market will continue to grow, which will contribute to strong demand for construction materials, furniture and wood products. As a result, the demand for logs and wood products will continue to outpace supply in the future, and we believe that log prices will rise in the long run.

Looking forward, the Company will continue to capture opportunities from the development of the forestry industry in China by refining its management team and exploring new business opportunities, as well as continuously and proactively strengthening its corporate governance so as to establish a solid foundation for future growth and to rebuild the confidence of our shareholders and creditors.

I would like to take this chance to thank all shareholders, creditors and other stakeholders for their understanding and support, as well as to express my sincere gratitude for the valuable advice and support from the Board and our staff. The Company will try its best to resume its operations and to continue to create returns and value to our shareholders in the long run.

Li Kwok Cheong
Chairman
Hong Kong, 27 April 2012

we are committed to
environmental protection and social responsibility.

BUSINESS REVIEW

In the first half of 2011, the Company primarily focused on putting into place a new senior management team and reforming its internal organization so as to re-establish the foundations of the Company for its future growth. Independent investigations conducted by the Independent Board Committee continued in the second half of the year. In 2011, the Company conducted both its Forensic Review and Internal Control Review by engaging a major accounting firm, in accordance with the recommendation by the Independent Board Committee.

During the year, the Group recorded turnover of RMB392.3 million for the year ended 31 December 2011, representing a decrease of 63% over the same period of 2010. Losses attributable to equity shareholders of the Company amounted to RMB4,190.7 million as compared to a loss of RMB2,711.8 million for the same period in 2010. The loss was mainly due to limited activities in harvesting and trading, change in fair value of plantation assets, impairment losses on prepayments, receivables and write down of inventories. Nevertheless, the Company expects to gradually resume its business operations from 2012.

In an effort to rebuild the management team and to strengthen internal control, the Board appointed Mr. Li Jian as acting Chief Executive Officer in March 2011. Mr. Li brings strong operational management experience to China Forestry. The appointment of Mr. Michael Cheung as Vice President, with the responsibilities of overseeing financial management and investor relations, represents another major addition to the Company's solid team of experienced and professional senior executives. In July 2011, The Board also appointed Ms. Hsu Wai Man as an independent non-executive Director and a member of the audit committee of the Company. Ms. Hsu has also been appointed Chairman of the audit committee and a core member of the Independent Board Committee for investigations.

Mr. Wei Bin and Ms. Wang Yan have been appointed as the general manager of the PRC subsidiaries of the Group in Sichuan Province and Guizhou Province, respectively and are responsible for overseeing the entire business operations of the Group in Sichuan Province and Guizhou Province, respectively. Mr. Perederienko Leonid has been appointed as the head of wood frame house of the Group.

During the year, the Company spent a lot of timing and resources to re-validate its forestry assets with the relevant government authorities and strived to rebuild an accurate record system and forest management steam. As at the date of this report, the Company successfully obtained original forestry certificates for approximately 105,000 hectares (with 67,000 hectares in Yunnan Province, 33,000 in Sichuan Province and 5,000 hectares in Guizhou Province), out of which 100,000 hectares were related to the ownership as at 31 December 2011. The Company will continue to apply for the original forest certificates of the outstanding forests of approximately 150,000 hectares. During the year, with the assistance from our forestry valuaers, we successfully re-built our forestry management team and reestablished our forest records in Sichuan Province and our improvement had been recognized by the forestry valuers. We will bring our successful work flows and experience to Yunnan Province and Guizhou Province. All forests assets owned by the Company were valued at approximately RMB3,153 million as at 31 December 2011, for details, please refer to notes 20 & 21 of the financial statements.

Meanwhile, the Company focused on rebuilding its sales force and business network and expanding its customer base. The Company began to resume its harvesting activities in the second half of 2011.

In an effort to restructure the Company's debt, China Forestry announced on 10 August 2011 that the tender offer of US$120 million in an aggregate principal amount of 7.75% senior notes due in 2015 was successfully completed. After the offer, US$180 million of notes remain outstanding, bearing interest at the rate of 10.25% per annum.

In 2011, the Company expanded its business downstream by engaging in wood log trading. During the year, the Company traded a total of 340,519 cubic meters of wood logs, generating RMB392.3 million in revenue and gross loss of RMB55.9 million. As at 31 December 2011, the Company had 71,632 cubic meters of wood logs, all located in northeastern China.

In early 2012, the Company acquired Manzhouli Triple Success Co. Ltd., one of the largest high end wood processing plants in Asia, located in Manzhouli in the Inner Mongolia Autonomous Region. The Company will develop Triple Success to become a bulk processor of high-end wood products, to consolidate fragmented local processors by providing a wood processing platform in Northeastern China as it leverages the sustainable supply of high quality wood logs from Russia and strong synergies with our established log trading business.

The demand for high-end wood and wood products remained strong in China during the year. The Company started to import high quality wood logs from Russia in December 2011 through its trading office in Manzhouli. With Russia becoming a member of the World Trade Organization (WTO) in December 2011, the import tax and levies on Russian wood logs will be reduced in the coming years, which will benefit Triple Success by reducing procurement costs, thus improving the Company's profitability.

As at 31 December 2011, the Company had cash and bank balances of approximately RMB749.6 million, of which approximately RMB525.1million was maintained in the PRC and approximately RMB224.5 million was maintained in Hong Kong.

As at the date of this report, certain subsidiaries of the Company signed loan agreements with local banks, total loan facilities amounted to RMB150 million, out of which, RMB40 million had been drawn down. The Group also obtained two letters of intent from two local banks which are willing to grant an aggregated bank loans of RMB700 million.

FINANCIAL REVIEW

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

REVENUE

For the year ended 31 December 2011, the Group's revenue was approximately RMB392.3 million (2010: RMB1,064.0 million), representing 63% compared to previous year.

During the second half of 2011, the Group harvested approximately 8,000 cubic meters wood logs from its owned forests and signed sales contracts with the customers and received the sales proceeds before year end of 2011. As the aforesaid logs were delivered to customers after 2011, the relevant revenue of approximately RMB4.8 million will be booked in 2012.

COST OF INVENTORY SOLD

The cost of inventory sold consists of timbers logs purchased by former senior management in 2010 amounted to RMB273 million and logs purchased during the year for wood log trading operations amounted to RMB220 million in northeastern China.

OPERATING EXPENSE FOR LOGGING ACTIVITIES

Operating expense for logging activities mainly represents harvesting costs associated with applying logging permits. The decrease in harvesting cost mainly attributable to the limited harvesting activities of the Group in 2011.

STAFF COST

Staff cost increased from RMB32.8 million for the year ended 31 December 2010 to RMB39.5 million for the year ended 31 December 2011 mainly due to the increase in number of staff from 224 employees in 2010 to 317 employees in 2011.

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 mainly represented the decreased in fair value of plantation assets less cost to sell for the year ended 31 December 2011, 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 2011. 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.

IMPAIRMENT OF PLANTATION ASSETS

Impairment of plantation assets amounted to RMB2.89 billion attributable to the difference between the valuation areas on the forestry ownership certificates and legal opinion on forestry ownership obtained for the year ended 31 December 2011 to the valuations areas in previous year.

IMPAIRMENT OF LEASE PREPAYMENT

Impairment of lease prepayment amount to RMB79.7 million attributable to these forests which have uncertrinties in obtaining the forestry ownership certificates and fully impaired.

IMPAIRMENT OF PREPAYMENT FOR FOREST ACQUISITION

Full impairment on the prepayment for forest acquisition in a subsidiary amounted to RMB383.5 million is provided. For details, please refer to note 23 of the financial statements. The Company will take all appropriate actions to recover the outstanding amounts.

IMPAIRMENT OF RECEIVABLES AND PREPAYMENT FOR PURCHASE OF INVENTORIES

After assessed the recoverability of receivables, the Company believes it is unlikely to recover the receivable amounted to RMB122.7 million and the prepayments for purchase of inventories amounted to RMB125.6 million. For details, please refer to notes 25(a) & 25(b) of the financial statements. The Company will take all appropriate actions to recover the outstanding amounts.

WRITE DOWN OF INVENTORIES

Physical stock take and inspection has been performed by the Group together with external professional parties in December 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.

we are dedicated to **carrying out research and development**

LOSS FOR THE YEAR

Loss for the year was approximately RMB4,190.7 million for the year ended 31 December 2011, representing a increase of approximately RMB1,478.9 million as compared to the loss of approximately RMB2,711.8 million in 2010.

DIVIDEND

The Board does not recommend a final dividend in respect of the year ended 31 December 2011 (2010: Nil cents per share).

A Special dividend of HK0.0254 per share has been approved at the Annual General Meeting held on 17 February 2012 and subsequently paid.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2011, cash and bank balances was in a sum of RMB749.6 million, representing a net decrease of RMB2,035.0 million as compared to the position as of 31 December 2010.

BORROWING

As at 31 December 2011, the Group had the Senior Notes with an aggregate principal amount of US$180,000,000 outstanding, bearing interest at 10.25% per annum, and repayable on 17 November 2015.

PLEDGE OF ASSETS

The Senior Notes were secured by the shares of the Company's subsidiaries incorporated in Hong Kong and BVI, and were subject to the fulfilment of certain financial and non-financial covenants relating to the Group, as commonly found in lending arrangements in high yield senior notes. If the Group was to breach the covenants, the principal and, accrued and unpaid interest of the Senior Notes would become payable on demand. The Directors consider that none of the covenants had been breached as at 31 December 2011.

FINANCIAL INSTRUMENTS

The Group did not hold any financial instruments for hedging purposes for the two years ended 31 December 2010 and 2011.

GEARING RATIO

The Group's gearing ratio is total debts over its total assets. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2011 was 0.41 (2010: 0.31).

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2011, the Group had a total of 317 employees (31 December 2010: 224 employees). For the year ended 31 December 2011, the staff cost (including directors' remuneration in the form of salaries and other benefits) was approximately RMB39.5 million (2010: RMB32.8 million). Details are set out in note 10 to the financial statements of this annual report.

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

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

On 15 August 2011, the Group repurchased its Senior Notes due 2015 with an aggregate principal amount of US$120 million plus accrued and unpaid interest and consent payment through a tender offer.

During the year ended 31 December 2011, the Group, through its subsidiary, China Zhaoneng Group Limited, bought back an aggregate principal amount of US$13,190,000 of its Senior Notes due 2015. Details are set out in Note 27 and Note 32 to the financial statement of this annual report.

PROSPECTS

As demand for wood and wood products will remain strong, the Company remains optimistic about the sustainable demand for timber logs. The long-term development of the forestry industry in the PRC has elevated our confidence in the Company's future development. Going forward, the Company will enhance internal control and resume operations so as to rebuild shareholder and investor confidence.

In view of this renewed optimism, the Company will continue to adopt a prudent development strategy. With the new management team in place, the Company will continue to rebuild relationships with the local governments and relevant parties in order to look for appropriate forests for acquisition and to apply for the resumption of harvesting. The Company has already resumed harvesting in second half of 2011, and will continue to increase its harvesting activities with the aim of gradually resuming normal harvesting activities. The Company will continue to improve its operational efficiency in 2012.

To better utilize its forestry resources to create more business opportunities and enhance profitability, the Company has formulated a vertically-integrated business model by expanding into other fields of the forestry value chain. The Company has already started to engage in the log trading business and entered wood processing with the acquisition of Manzhouli Triple Success Co. Ltd. ("Triple Success"). The Company plans to develop Triple Success to become a high-end bulk processing platform, with which it will consolidate fragmented local wood processors by offering value-added processing services. This business platform will also serve as a trading platform for the import of timber logs from Russia into China. The Company expects that the trading of timber logs and wood processing will contribute additional revenue and profit in 2012.

To further penetrate into downstream businesses in the forestry industry, the Company is engaging in the wood-frame house manufacturing and construction business. With the booming tourism industry and growing awareness of environmental protection in the PRC, wood-frame houses have promising future prospects as they boast comfort and functionality and can be built into various types of dwellings. The Company will leverage its abundant forest reserves to provide sufficient raw materials for the construction of wood-frame houses. As at the date of this report, we are even at an initial development stage of our business in this sector, we already received orders from our customers. This new business will bring a new revenue stream to the Company and will diversify its business portfolio.

The Company will step up its efforts to resume trading as soon as possible and is confident that its operations will return to normal, steering it towards a stable recovery in its financial performance in 2012.

EXECUTIVE DIRECTORS

Li Kwok Cheong (李國昌), aged 54, is our executive Director and chairman. He was appointed as a Director on 21 December 2007. Mr. Li is mainly responsible for the Group's strategic development and oversees the Group's operations and investments. Mr. Li graduated from 中華全國律師函授中心 (Chinese Nation Attorney Teaches by Correspondence the Center), an organisation assisting self-learners in legal higher education examination in China, in June 1987. Mr. Li is an entrepreneur and had invested in tobacco trading from 1993 to 2001, before co-founding the Group in 2001. Mr. Li is the council member of the China Council for the Promotion of Environment and Forestry ("CCPEF"). Mr. Li has over 16 years of experience in management, of which over 8 years of experience in the forestry industry. Mr. Li is the sole director of Kingfly Capital Limited, which is a substantial shareholder of the Company.

Lin Pu (林普), aged 52, is our executive Director and was appointed as a Director on 1 January 2011. Mr. Lin is the Head of Yunnan operation. Mr. Lin has more than 20 years of experience in the financial services sector. He graduated with a bachelor's degree in Banking Computer Management and Application in 1987 from Zhejiang Engineering College, currently known as Zhejiang University of Science & Technology, a bachelor's degree in Economics in 1998 from Hangzhou University, currently known as Zhejiang University, and a master's degree in Business Administration in 2003 from Macau University of Science and Technology. Prior to joining the Company, he was the vice president of Zhejiang Crea-union Information Technology Co., Ltd. and the general manager of Beijing Crea-union Longsheng Information Technology Co., Ltd. from 2003 to 2008.

NON-EXECUTIVE DIRECTORS

Xiao Feng (肖楓), aged 39, is our non-executive Director. He was appointed as a Director on 8 January 2008 when the Carlyle Funds invested in us and nominated him to our Board. Mr. Xiao is a managing director of the Carlyle Group focused on growth capital investment in China. Prior to joining Carlyle in April 2005, Mr. Xiao was a Vice General Manager at China International Capital Corporation, a well-known investment bank in China, from January 2000 to April 2005. Mr. Xiao received his Master of Business Administration from the China Europe International Business School in April 2000. He obtained a Lawyer's Qualification Certificate in China issued by Ministry of Justice of PRC in June 1997. He also obtained a bachelor degree in electronics and computer science technology and a Bachelor of Arts in English from Tsinghua University in July 1995. Mr. Xiao was appointed as a director of Xtep International Holdings Limited (which shares are listed on the Hong Kong Stock Exchange (Stock code: 1368)) in September 2007 and became its non-executive director in January 2008.

Li Zhi Tong (李志同), aged 69, is our non-executive Director. He was appointed as a Director on 3 April 2008. From 19 April 2005 to 18 April 2008, he was our consultant and advised us on forestry matters. Mr. Li acquired his forestry experience by being the vice chairman of the CCPEF since 2001 and having served as a major general at the PRC forestry security bureau (森林公安局) previously. Mr. Li was also the first grade forestry police superintendent in China.

Meng Fan Zhi (孟繁志), aged 47, is our non-executive Director. He was appointed as a Director on 1 January 2011. Mr. Meng has more than 10 years of experience in the forestry industry. Apart from his appointment with the Company, he has been acting as the deputy chairman of The China Council for the Promotion of Environment and Forestry since 2010. Prior to his appointment as the deputy chairman, Mr. Meng had been acting as the secretary-general since 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wong Tak-jun (黃德尊), aged 49, is our independent non-executive Director. He was appointed as a Director on 3 April 2008. Mr. Wong is the Chair Professor of Accountancy and the Dean of the Faculty of Business Administration of the Chinese University of Hong Kong (CUHK). Before joining CUHK, he has taught at the University of Maryland in the United States. Mr. Wong has published numerous research articles in a number of finance and accounting journals such as Journal of Finance, Review of Financial Studies, The Accounting Review and Journal of Accounting and Economics and is experienced in reviewing and analysing audited financial statements of public companies. He received his Ph.D. and Master of Business Administration from University of California in December 1990 and June 1986 respectively.

Liu Can (劉璨), aged 45, is our independent non-executive Director. He was appointed as a Director on 11 August 2008. He obtained a master degree in agriculture from Nanjing Forestry University in November 1992 and a PhD degree in management from China Agriculture University in July 2000. From September 2002, Mr. Liu has been an honorary professor and post-graduate student tutor of Economic Management School of China Agriculture University (中國農業大學經濟管理學院), and from November 2006, a visiting professor of Qingdao Agriculture University (青島農業大學). He has been conducting research for the Economic Development Research Centre of the China Forestry Scientific Research Academy established by SFA (中國林業科學院經濟發展研究中心). Mr. Liu has written books relating to forestry.

Hsu Wai Man, Helen (徐慧敏), aged 41 is our independent non-executive Director. She was appointed as a Director on 5 July 2011. Ms. Hsu has over 18 years experience in accounting. Ms. Hsu graduated from The Chinese University of Hong Kong with a bachelor degree in business administration. Ms. Hsu had been working with Ernst & Young for 18 years and was a partner of Ernst & Young before she retired from the firm in February 2011. Ms. Hsu is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Amercian Institute of Certified Public Accountants. Ms. Hsu is also a member of the advisory board of the School of Accountancy of The Chinese University of Hong Kong.

Zhu De Miao (朱德淼), aged 47, is our independent non-executive Director. He was appointed as a Director on 1 January 2011. Mr. Zhu has more than 20 years of experience in the financial services sector. He graduated with a bachelor's degree in Economics in 1982 from Heibei College of Geology, currently known as Shijiazhuang University of Economics, a master's degree in Economics in 1985 from Research Institute for Fiscal Science, Ministry of Finance, P.R. China and a master's degree in Business Administration in 1993 from the University of Chicago. Apart from his appointment with the Company, Mr. Zhu has been acting as an independent non-executive director and chairman of the audit committee of Aluminum Corporation of China Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 2600), the Shanghai Stock Exchange (Stock Code: 601600) and the New York Stock Exchange (Stock Code: ACH), since 2008. Mr. Zhu has also been acting as an independent director of WSP Holdings Limited, a company listed on the New York Stock Exchange (Stock Code: WH), since 2007. In addition, Mr. Zhu has been appointed as the managing director of Oaktree Capital (Hong Kong) Limited since 2005. From 1999 to 2005, Mr. Zhu served as the managing director and the chairman of operating committee of the Greater China Region of JP Morgan Chase & Co..

SENIOR MANAGEMENT

Li Jian (李健), aged 58, was the acting chief executive officer of our group and responsible for overseeing the entire business operations of the Group. He joined our group on 14 February 2011. Mr. Li graduated from the Faculty of Management of Hangzhou Institute of Commerce (杭州商學院). He passed the first national judicial examination of PRC (中國國家首次司法資格考試) in 1986 and was a lawyer in Hangzhou Second Law Firm (now known as Zhejiang Xingyun Law Firm) from 1984 to 1990. Mr. Li was an executive director and has been a consultant of Beijing Capital Asset Management Company Limited (北京首創資產管理有限公司) since 2002. He was also the consultant for the board of directors of Dongfang Shidai Investment Company Limited (東方時代投資有限公司). From 1998 to 2001, Mr. Li was the executive director and president of China Hi-Tech Group Co., Ltd. (中國高科集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600730). From 1994 to 1997, Mr. Li was the director and general manager of Shenzhen Jinlong Plush Manufacturing Company Limited (深圳金龍長毛絨製造有限公司) and Qingdao Hengye Plush Manufacturing Company Limited (青島恒業長毛絨製造有限公司). From 1990 to 1993, Mr. Li was the director and vice president of Shenzhen Campaign Industrial Co. Ltd. (深圳原野實業股份有限公司, now known as 深圳世紀星源股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 5). From 1983 to 1990, Mr. Li was a lecturer at Zhejiang Radio and Television University (浙江廣播電視大學). On 15 April 2012, Mr. Li has resigned from his position as the acting chief executive officer of the Company.

Cheung Man Yu, Michael (張文宇), aged 37, is the vice president of our group and responsible for the financial management, investor relations and financial reporting of the Company and assisting the chief executive officer in formulating the Group's strategy. He joined our group in February 2011. Mr. Cheung has over 13 years of experience in financial management and financial services. Prior to joining the Group, he was employed at the audit department of Ernst & Young, an international accounting firm, between 2000 and 2004, he has been a vice president (or director) at the respective investment banking division of BNP Paribas Capital (Asia Pacific) Limited, UBS AG and J.P. Morgan since 2004.

Tong Wai Kit, Raymond (唐偉傑), aged 39, is the joint chief financial officer and company secretary of our group. Mr. Tong is primarily responsible for overseeing our group's financial reporting procedures, internal controls and compliance with the Hong Kong Listing Rules and other relevant laws and regulations. He joined our group in April 2008, and has over 13 years working experience in the related fields of finance, audit and accounting. Prior to joining our group, Mr. Tong, from July 2006 to December 2007, worked as a chief financial officer, company secretary and qualified accountant for ZZNode Technologies Company Limited, which is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC and which shares are listed on the Hong Kong Stock Exchange (stock code: 2371). From March 2004 to June 2006, Mr. Tong worked as a joint company secretary for China Minsheng Banking Corporation Limited, and from April 2003 to December 2003, he worked as a chief financial officer and company secretary for Nanjing Dahe Outdoor Media Company Limited (currently known as Dahe Media Co., Ltd.), which is an outdoor advertising service provider in the PRC and which shares are listed on the Growth Enterprise Market of Hong Kong Stock Exchange (stock code: 8243). Mr. Tong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated in June 1995 from Hong Kong Polytechnic University with a bachelor's degree in accountancy.

Lillian Tsui (徐力), is the head of Capital Market and Investor Relations of our group. She joined our group in April 2012. Ms Tsui graduated from Tsing Hua University with Bachelor Degrees in both Biomedical Engineering & Computer Science & Technology in 1988, and obtained a Master Degree in Business Administration from Australian Graduate School of Management of University of New South Wales in 1998. Ms Tsui is a Chartered Financial Analyst since 2003. She has over 12 years of experience in investment banking. Prior to joining our group, Ms Tsui was an Executive Director at Investment Banking Department of China International Capital Corporation Limited.

Xu Jia Zeng (徐嘉曾), aged 35, is the financial controller of our Group for its business operations in the PRC and responsible for financial management and financial reporting of the PRC subsidiaries of the Group. He joined our Group in April 2011. Mr. Xu is a member of the Chinese Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He is also a Certified Internal Auditor. He has over 10 years of experience in accounting and financial consulting. Prior to joining the Group, Mr. Xu was a senior manager at Resources Global Professionals and was responsible for financial due diligence and consulting from 2009 to 2011. From 2007 to 2009, he was a manager of Deloitte Consulting (Shanghai) Co., Ltd., Beijing Branch. From 1999 to 2007, he was employed at the audit department and corporate consulting departments of Ernst & Young, an international accounting firm.

Wei Bin (魏斌), aged 38, is the acting general manager of Chengdu Yishang Forestry Resources Development Co., Ltd., the subsidiary of our group. He joined our group in March 2011. Mr. Wei is familiar with the tax policy and skilled at tax strategy planning. He has been engaged in investment, financing and securities margin financing for many years. He is a master of financial management and accounting, successful acquisition and disposal of non-performing loans. Mr. Wei is the senior accountant and a member of Jiu San Society. Prior to joining our group, Mr. Wei was the general manager of Hebei Fulin Investment Management Company from 2007 to 2011. He was the manager of the investment department of Bohai Trust Limited Company of HNA Group from 2003 to 2007. He was the deputy general manager of Xinda Import and Export Corporation of Hebei Province from 2000 to 2003. He was the tax specialist and finance manager of International Trust Investment Company of Hebei Province successively from 1994 to 2000. He graduated from Hebei Finance and Economics College in 1994, with a bachelor degree of Economics in Accountancy.

Wang Yan (王岩), aged 31, is the general manager of Guizhou Wosen Forestry Resources Development Co., Ltd., a subsidiary of our group. She joined our group in July 2011. Prior to joining our group, Ms. Wang was the deputy general manager of Changrong Group from 2010 to 2011. She was the executive director of Shenzhen Media & Communication Limited Company from 2008 to 2010. She was the operations director of Global Character of People's Daily from 2006 to 2008. She was the advertisements manager of Global Times of People's Daily from 2002 to 2006. She graduated from Capital University of Economics and Business in 2002, with a bachelor's degree.

Perederienko Leonid (列昂彼), aged 60, is head of wood frame house of the Group. He joined our group in December 2011. Prior to joining our group, Mr. Leonid was the legal representative of Beijing Aodi Building Materials Holdings Limited from 1994 to 2011. He was the general manager of Urbitex Austrdia from 1981 to 1994. Mr. Leonid graduated from the University of Western Sydney of Business in 1975 with a bachelor's degree.

Su Xiaoming (速曉明), aged 45, is assistant to the Chairman of the Group. He joined our group in March 2012. Mr. Wei is familiar with investment and corporate management. Prior to joining our group, Mr. Su was the general manager of Hong Kong Hotung Holdings Limited from 2010 to 2012. Mr. Su was the general manager of Guangxi Tianbo Science and Technology Development Holdings Limited from 1999 to 2006. Mr. Su was chairman of Shenzhen Subo Communications technology Holdings Limited and Shenzhen Anlong Information system Holdings Limited from 1995 to 2006 and the deputy general manager of Shenzhen Laiyingda Group Xingda Industry and Trade Company Import Department from 1992 to 1995. He graduated from Guilin University of Electronic Technology Engineering Automation in 1990.

Jiang Ning (姜寧), is the chief sales officer of our group. He joined our group in 2012. Mr. Jiang graduated from Electrification Railway College of Beijing Union University with a bachelor degree in communication and control engineering. Mr. Jiang has more than 20 years of experience in sales and management. From 2010 to 2011, he is the director of cloud computing products of telecommunication industry in Computer Associates China. From 1987 to 2009, Mr. Jiang worked as a sales director or manager for Nokia China Company Limited, Hewlett-Packard, Thomson Telecom and Dell.

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

The Directors hereby present their report and the audited financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

Details of the Company's principal subsidiaries as at 31 December 2011 are set out in note 22 to the financial statements of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated statement of comprehensive income on page 44 of this annual report.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: Nil).

A special dividend of HK$0.0254 per share has been approved at the Annual General Meeting held on 17 February 2012 and subsequently paid.

PROPERTY, PLANT AND EQUIPMENT AND PLANTATION ASSETS

Details of the property, plant and equipment and plantation assets of the Group during the year are set out in notes 19 and 21 to financial statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 35 to the financial statements of this annual report.

SENIOR NOTES

In November 2010, the Company issued senior notes in the aggregate principal amount of US$300 million maturing on 17 November 2015 with an interest rate of 7.75% per annum for forest acquisition and general corporate purposes. In August 2011, the Company repurchase an aggregate principal amount of US$120 million through a tender offer. After the tender offer, US$180 million in an aggregate amount of senior notes remain outstanding bearing interest at the increased rate of 10.25% per annum. Details of the senior notes of the Company are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Details of the movements during the year ended 31 December 2011 in the reserves of the Group are set out in the consolidated statement of changes in equity on page 47 of this annual report.

As at 31 December 2011, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association amounted to RMB1,316,537,000.

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

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

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 121 and 122 of this annual report.

LOANS AND BORROWINGS

Particulars of loans and borrowings of the Company and the Group as at 31 December 2011 are set out in note 32 to the financial statements of this annual report.

CHARITABLE DONATIONS

During the year, the Group donated charitable contributions totalling approximately RMB3 million (2010: RMB1.5 million).

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	21.7%	
Five largest customers in aggregate	56.2%	
The largest supplier		9.2%
Five largest suppliers in aggregate		25.8%

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

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Li Kwok Cheong *(Chairman)*
Mr. Li Han Chun (removed on 17 February 2012)
Mr. Lin Pu

NON-EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wong Tak-jun
Mr. Liu Can
Mr. Zhu De Miao
Ms. Hsu Wai Man, Helen (appointed on 5 July 2011)

Biographical details of the above Directors are set out in the section headed "Directors and Senior Management" on pages 13 to 17 of this annual report.

In accordance with articles 84(1) and 84(2) of the Company's articles of association, Mr. Li Kwok Cheong, Mr. Xiao Feng and Mr. Zhu De Miao will retire from the Board by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

REMUNERATION OF THE DIRECTORS

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

Details of the remuneration of the Directors are set out in note 13 to the financial statements of this annual report.

REMUNERATION POLICY

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

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

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

(A) LONG POSITIONS IN SHARES

Long Positions in our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Li Kwok Cheong (1)	Interest of a controlled corporation	1,556,950,000	50.87%
	Security interest	75,000,023	2.45%
Li Han Chun (2)	Interest of a controlled corporation	83,175,000	2.72%
Wong Tak-jun (3)	Interest of spouse	48,000	0.002%

Notes:

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

(2) Top Wisdom is wholly-owned and controlled by Mr. Li Han Chun and Mr. Li Han Chun is therefore deemed to be interested in the Shares held by Top Wisdom.

(3) Mr. Wong Tak-jun, the spouse of Ms. Wong Ya Hui, is deemed to be interested in all the Shares in which Ms. Wong Ya Hui is interested. Ms. Wong Ya Hui is the legal and beneficial owner of the 48,000 Shares.

Save as disclosed above, as at 31 December 2011, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

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

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

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

On 7 September 2010, the Company granted 42,750,000 options to a director, senior management and key employees. 34,250,000 options have been lapsed during the year ended 31 December 2011. For further details on the financial aspects of the share options, please refer to note 33 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

RETIREMENT BENEFITS SCHEMES

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

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

So far as is known to any Directors or chief executives of the Company, as at 31 December 2011, Shareholders (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

LONG POSITIONS:

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

Notes:

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

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

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

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

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

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

Save as disclosed above, as at 31 December 2011, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

CONTRACTS OF SIGNIFICANCE

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

AUDIT COMMITTEE

The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their written terms of reference are in line with the Corporate Governance Code provisions. The audit committee consists of four members, namely, Ms. Hsu Wai Man, Helen (appointed on 5 July 2011), Mr. Wong Tak-jun, Mr. Liu Can and Mr. Zhu De Miao, all of whom are independent non-executive Directors. Ms. Hsu Wai Man, Helen is the chairlady of the audit committee.

The audit committee has reviewed, together with the management of the Company, the accounting principles, accounting standards and methods adopted by the Company, discussed the matters concerning internal control, auditing and financial reporting matters and has reviewed the financial statements of the Group for the year ended 31 December 2011.

REMUNERATION COMMITTEE

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

The remuneration committee currently comprises one non-executive Director, Mr. Xiao Feng and two independent non-executive Directors, Mr. Wong Tak-jun (Chairman) and Mr. Zhu De Miao.

PRE-EMPTIVE RIGHTS

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code during the year ended 31 December 2011.

CODE OF CORPORATE GOVERNANCE PRACTICE

The Company has adopted the Corporate Governance Code as its own code of corporate governance. Save as otherwise disclosed in the Corporate Governance Report, the Company has complied with the code provisions of the Corporate Governance Code throughout the period from the Listing Date to 31 December 2011.

For details of the Corporate Governance Report, please refer to pages 27 to 35 of this annual report.

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

On 15 August 2011, the Company repurchased its Senior Notes due 2015 with an aggregate principal amount of US$120,000,000 plus accrued and unpaid interest and consent payment through a tender offer. During the year ended 31 December 2011, the Company, through its subsidiary, China Zhaoneng Group Limited, purchased an aggregate principal amount of US$13,190,000 of its Senior Notes due 2015.

Details are set out in Note 27 and Note 32 to the financial statement of this annual report.

RELATED PARTY TRANSACTIONS

Material related party transactions during the year are disclosed in note 35 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing to 31 December 2011.

SUSPENSION OF TRADING

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

On behalf of the Board
Li Kwok Cheong
Chairman

27 April 2012

The Company has adopted the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rule. The Company has complied with such code provisions (without taking into account any amendment to the Corporate Governance Code effective from 1 January 2012) during the year ended 31 December 2011, save for the deviations as set out below.

As disclosed in the announcement of the Company dated 29 April 2011, it has been revealed that a group of former senior management members led by Mr. Li Han Chun (the "Former Management Team") had conducted the Group's business operations in manners not authorized by the Board, including the failure to procure insurance, conducting sales in cash without proper records and purchase of wood logs for trading purposes. Please refer to the announcement of the Company dated 29 April 2011 for further details. As a result, the following code provisions in the Corporate Governance Code have been deviated:

Code provision	**Deviation**
A.1.3	There have been 2 instances where notice of less than 14 days were given to the Directors in respect of regular meetings of the Board.
C.3.3	Due to the concealment of the Group's actual financial information by the Former Management Team, the audit committee was not able to discharge the duties under its terms of reference effectively.

(A) BOARD OF DIRECTORS

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

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

The Board comprises nine Directors, consisting of two executive Directors, three non-executive Directors and four independent non-executive Directors. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report. As disclosed in the announcement of the Company, dated 17 February 2012, Mr. Li Han Chun was removed as an executive Director at the annual general meeting of the Company held on 17 February 2012 with immediate effect. To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the year ended 31 December 2011.

Chairman and Chief Executive Officer

During the year ended 31 December 2011, the roles of chairman and the acting chief executive officer were held separately by Mr. Li Kwok Cheong and Mr. Li Jian, respectively, and their roles and responsibilities were separate. The chairman was responsible in leading the Board in forming the Group's strategies and policies and for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group. The acting chief executive officer was directly in charge of the daily operations of the Group and was accountable to the Board for the financial and operational performance of the Group.

On 15 April 2012, Mr. Li Jian resigned from his position as the acting chief executive officer of the Company, and Mr. Li Kwok Cheong was appointed as the chief executive officer of the Company. The Company is in the process of identifying suitable candidates to act as the chief executive officer of the Company and will make an announcement in accordance with the Listing Rules once a new chief executive officer is appointed.

Independent Non-executive Directors

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

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

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

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's businesses and the statutory regulatory obligations of a director of a listed company.

Directors' and Officers' Insurance

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

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications. The number of the board meetings held and the attendance of each Director at these meetings for the year ended 31 December 2011 have been set out as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Independent Board Committee
No. of meetings held	25	6	1	1	7
No. of meetings attended					
Executive Directors					
Mr. Li Kwok Cheong	22	N/A	N/A	N/A	N/A
Mr. Lin Pu	16	N/A	N/A	N/A	N/A
Non-executive Directors					
Mr. Xiao Feng	18	N/A	1	N/A	N/A
Mr. Li Zhi Tong	15	N/A	N/A	N/A	N/A
Mr. Meng Fan Zhi	20	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Wong Tak-jun	17	6	1	N/A	7
Ms. Hsu Wai Man, Helen (appointed on 5 July 2011)	9	1	N/A	N/A	0
Mr. Zhu De Miao	17	6	1	1	7
Mr. Liu Can	18	6	N/A	1	7

No annual general meeting was held in 2011. Annual general meeting for year ended 2010 was held on 17 February 2012.

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

Appointments, Re-election and Removal of Directors

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

Board Committees

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

Audit Committee

The primary duties of the audit committee are to make recommendations 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 of the audit committee are in line with the Corporate Governance Code provisions. The audit committee consists of four members, namely, Mr. Wong Tak-jun, Ms. Hsu Wai Man, Helen, Mr. Zhu De Miao and Mr. Liu Can, all of whom are independent non-executive Directors. Ms. Hsu Wai Man, Helen is the chairperson of the audit committee.

The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2011, including the accounting principles and practice adopted by the Group. As disclosed in this annual report, due to the limited audit evidence available as stated in notes 1 and 2 to the financial statements of this annual report, the Directors were unable to obtain sufficient documentary information to ensure the genuineness and completeness of books and records. As a result, the Board of Directors is unable to represent as to the completeness, existence and accuracy of identification and the disclosures of the financial statements for the year ended 31 December 2011.

In accordance with its written terms of reference, the audit committee held six meetings during the year ended 31 December 2011 to discuss the auditing, internal control and financial reporting matters of the Company, including review of the annual results of the Group for the year ended 31 December 2010 and interim results of the Group for the six months ended 30 June 2011.

Remuneration Committee

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

The remuneration committee consists of three members, namely, Mr. Wong Tak-jun, Mr. Zhu De Miao and Mr. Xiao Feng. Mr. Wong Tak-jun is the chairman of the remuneration committee.

The remuneration committee held one meeting during the year ended 31 December 2011.

Nomination Committee

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

The nomination committee consists of three members, namely, Mr. Li Kwok Cheong, Mr. Liu Can and Mr. Zhu De Miao. Mr. Li Kwok Cheong was the chairman of the nomination committee in 2011.

The nomination committee held one meeting during the year ended 31 December 2011.

Independent Board Committee

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

The independent board committee held seven meetings during the year ended 31 December 2011.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board, which include (a) to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report. Details of the work of the Board in relation to the corporate governance function for the year ending 31 December 2011 will be disclosed in the corporate governance report in the Company's 2011 annual report.

Continuous Professional Development

The Directors have been informed of the requirement under Code Provision A.6.5 of the Corporate Governance Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2011 will be set out in the corporate governance report in the Company's 2011 annual report.

Company Secretary

The company secretary (the "Company Secretary") of the Company is Tong Wai Kit, Raymond (FCCA, FCPA). Details of the biography of the Company Secretary are set out in the section headed "Directors and Senior Management" of the annual report of which this corporate governance report forms part. The Company Secretary has been informed of the requirements under Rule 3.29 of the Listing Rules and his compliance with such requirement for the year ending 31 December 2011 will be reported in the corporate governance report in the Company's 2011.

(B) FINANCIAL REPORTING

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

As disclosed in the announcement of the Company dated 5 January 2012, the Company's former external auditors, KPMG, resigned as the auditors of the Company with effect from 5 January 2012. As disclosed in the announcement of the Company dated 12 January 2012, Crowe Horwath (HK) CPA Limited was appointed as the Company's auditor with effect from 12 January 2012 and was subsequently re-appointed as the auditor of the Company at the Company's annual general meeting for the year ended 31 December 2010 held on 17 February 2012.

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

External Auditor's Remuneration

The Company engages Crowe Horwath (HK) CPA Limited as its external auditor. Details of the fees paid/payable to Crowe Horwath (HK) CPA Limited for the year ended 31 December 2011 are as follows:

Statutory audit services: HK$3.7 million

(C) INTERNAL CONTROLS

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

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

(D) COMMUNICATIONS WITH SHAREHOLDERS

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

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

(E) SHAREHOLDERS' RIGHTS

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

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

Procedures by which enquiries may be put to the Board

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

During the year ended 31 December 2011, there had been no significant change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

Crowe Horwath™

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

34/F The Lee Gardens,
33 Hysan Avenue,
Causeway Bay, Hong Kong

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

We were engaged to audit the consolidated financial statements of China Forestry Holdings Co., Ltd. (the "Company") and its subsidiaries (together the "Group") set out on pages 43 to 120, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation – prior year's scope limitation affecting opening balances and corresponding figures

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another firm of auditors (the "Predecessor Auditor") whose report dated 29 April 2011 expressed a disclaimer of opinion due to various limitations in evidence available to the Predecessor Auditor. These limitations include:

(i) the evidence obtained by the Predecessor Auditor indicated that irregularities with respect to the maintenance of the Company's and the Group's accounting records and the transactions recorded therein and the findings of an independent board committee (the "IBC") of the Company which cast serious doubts over the authenticity of the records and documents of the Company and of the Group and over the reliability of the information and explanations provided to the Predecessor Auditor by members of management as well as by parties external to the Group;

(ii) the fact that the Company's directors were unable to locate all books and records of a key operating subsidiary and that the Predecessor Auditor were 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 that subsidiary, and

(iii) the fact that the financial statements for the year ended 31 December 2010 were prepared by the directors based on incomplete books and records and did not include a consolidated statement of cash flows and therefore the directors believed that it is almost impossible and not practical, to ascertain the correct amounts of the financial statements which might not comply with the International Financial Reporting Standards, or the disclosure requirements of the Hong Kong Companies Ordinance.

In 2011, the audit committee and the IBC had engaged independent consultants to conduct investigations on the irregularities identified in the operating activities of the Group from January 2006 to December 2010 and on the utilization of funds obtained by the Company from its initial listing. According to the conclusions reached by the IBC based on the findings of the independent consultants, which confirmed that certain books and records and supporting documentary evidences and information were missing and different sets of financial statements and related information existed but un-reconcilable. In addition, most officers and employees responsible for the preparation of these records and for operating activities, especially of the principal subsidiary of the Group had left the Group's employment and declined to co-operate. The directors are unable to analyse and verify the Group's 2010 cash sales and purchases, cost of acquisition of plantation assets and costs of sales or give a representation as to the reliability of the information and explanations provided to the Predecessor Auditor and whether the consolidated financial statements for the year ended 31 December 2010 have been properly prepared in accordance with IFRSs.

As a result, in performing our audit of the consolidated financial statements of the Group for the year ended 31 December 2011, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the opening balances of assets, liabilities and reserves as at 1 January 2011 and the corresponding figures for 2010 were fairly stated.

Any adjustments found to be necessary in respect thereof had we obtained sufficient appropriate audit evidence would have had a consequential effect on the net assets of the Group as at 1 January 2011, and of its loss and cash flows for the current and prior years, and the related disclosures thereof in the consolidated financial statements.

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

a) As disclosed in note 21 to the consolidated financial statements, the Group held approximately 203,000 hectares of forests in Yunnan, the People's Republic of China (the "PRC") as at 31 December 2010 according to the confirmations from the respective Yunnan forest bureaus and the PRC legal opinion obtained in April 2011. Up to the date of this report, the Group obtained forestry ownership certificates for approximately 53,000 hectares of forests and discovered additional forestry ownership certificates for approximately 14,000 hectares of forests for other areas in Yunnan not included in the aforesaid 203,000 hectares. As such, the Group has obtained forestry ownership certificates for a total of approximately 67,000 hectares of forests in Yunnan for which a PRC legal opinion was obtained. As regards the remaining approximately 150,000 hectares of forests for which forestry ownership certificates have not yet been obtained, confirmation of title for a total of approximately 54,000 hectares of forests had been received up to the date of this report.

An independent professional valuer was engaged to perform a valuation on the Group's plantation assets but the valuer was unable to place a value to the remaining approximately 96,000 hectares of forests in Yunnan for which no confirmation was received from the respective Yunnan forest bureaus due to lacking of sufficient appropriate information and the absence of title documents. As regards the balance of approximately 121,000 hectares of forests in Yunnan, a qualified opinion on its value was given due to lacking of sufficient appropriate information as discussed in more detail in paragraph (b) below. The valuation amount was adopted by the directors to be the carrying amount of the plantation assets in Yunnan as at 31 December 2011.

In view of the uncertainty of obtaining the forestry ownership certificates, the directors considered that the plantation assets with a carrying amount of approximately RMB2,200,000,000 and lease prepayments of RMB73,610,000 in respect of the remaining approximately 96,000 hectares of forests in Yunnan for which no confirmation was received from the respective Yunnan forest bureaus nor were forestry ownership certificates obtained were charged to profit or loss as changes in fair value of plantation assets less costs to sell and other reconciling items and as impairment loss on lease prepayments respectively.

In this circumstance, we were unable to obtain sufficient appropriate audit evidence to verify the title of the Group to the approximately 96,000 hectares of forests in Yunnan and the appropriateness and accuracy of the amount of approximately RMB2,200,000,000 charged to profit or loss as changes in fair value of plantation assets less costs to sell and other reconciling items and amount of the impairment loss on lease prepayments.

b) As disclosed in notes 20 and 21 to the consolidated financial statements, the purchase consideration of the Group's forests in Yunnan covering an area of approximately 121,000 hectares was allocated from between lease prepayments and plantation assets as estimated by the directors. As at 31 December 2011, the carrying amount of the plantation assets was valued by the directors at RMB1,756,000,000 on a fair value less costs to sell basis by reference to a valuation conducted by a professional valuer. However, due to insufficient information relating to stocked area, species composition, yield and other necessary information for the purpose of the valuation, the valuer was unable to give an unqualified opinion on the valuation. The carrying amount of the lease prepayments of RMB209,477,000 was brought forward from 2009.

Given the fact that the books and records relating to the acquisition of these assets were incomplete or missing, that the valuation on the plantation assets was not unqualified and that no valuation was undertaken on the lease prepayments, we were unable to obtain sufficient appropriate audit evidence to verify the accuracy of the carrying amounts of these assets as at 31 December 2011 and RMB657,916,000 charged to the consolidated income statement and included in the changes in fair value of plantation assets less costs to sell and other reconciling items.

c) As disclosed in notes 31 and 31(b) to the consolidated financial statements, there were payables for forest acquisition of RMB641,454,000 as at 31 December 2010. The payables for forest acquisition represent considerations to be settled for the acquisition of forests including the aforesaid 203,000 hectares of forests in Yunnan. Due to the lost of certain books and records for 2010, the amounts of the payables were estimated by the directors by reference to the areas held and the estimated market price. During the year, the Group made aggregate payments of RMB598,653,000 to settle part of the estimated outstanding consideration payable of RMB641,454,000 brought forward from 31 December 2010. The remaining outstanding estimated balance payable of RMB42,801,000 was included in the total amount of payables for forest acquisition of RMB95,201,000 as at 31 December 2011.

   Accordingly, we were unable to obtain sufficient appropriate audit evidence to verify the accuracy and completeness of payables for forest acquisition as at 31 December 2011 and the appropriateness and validity of payments made to settle part of the estimated outstanding consideration payable during the year.

d) As disclosed in note 36(a) to the consolidated financial statements, the directors considered that the Group has accounted for all the payables for forest acquisition as at 31 December 2011 and there were no capital commitments outstanding in respect of contracts signed in previous years for forest acquisition. Given that the books and records in prior year were incomplete and there were no sufficient documents to support the judgements made by the directors, we were unable to obtain sufficient appropriate audit evidence to verify the amount of capital commitments for forest acquisition contracts signed in previous years, and the completeness of the related disclosures in the consolidated financial statements.

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

3. Scope limitation – Impairment of prepayment for forest acquisition, plantation assets and lease prepayments

As described in note 23(b) to the consolidated financial statements, the Group made payments of RMB413,911,000 to two entities controlled by the former general manager of a subsidiary in 2010 and classified an amount of RMB383,484,000 paid as prepayment for forest acquisition in the consolidated financial statements in 2010. According to the findings of the IBC, the payments were authorised by the former chief executive officer and executive director Mr. Li Han Chun who was removed by the board of directors from the positions of chief executive officier and executive director on 14 February 2011 and 17 February 2012 respectively. Subsequent to the payments, certain forestry ownership certificates were provided to the Group and therefore RMB24,342,000 and RMB6,085,000 were classified as plantation assets and lease prepayments respectively during the year ended 31 December 2010. The fair value less costs to sell of the plantation assets increased to RMB34,000,000 as at 31 December 2010. The details of the plantation assets and lease prepayments are described in note 21(c) and note 20(c) to the consolidated financial statements respectively.

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

However, there is no information available for us to assess the financial position of the two entitles. Due to the uncertainty of the outcome of the actions taken against the two entities, we were unable to obtain sufficient appropriate audit evidence to ascertain the recoverability of the prepayments as well as the appropriateness of full impairment in the current year. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to the appropriateness and accuracy to charge the plantation assets to the consolidated income statement as changes in fair value of plantation assets less costs to sell and other reconciling items and the impairment of lease prepayments and the prepayments made to the two entities for forest acquisition as at 31 December 2011.

4. Scope limitation – prepayments for purchase of inventories

As disclosed in notes 25 and 25(b) to the consolidated financial statements, a subsidiary entered into three purchase contracts with three entities for purchase of timber logs in January 2011. Based on the purchase contracts, the Group made payments of RMB171,000,000 to the three entities as prepayments for the purchase of timber logs between 24 January 2011 to 2 March 2011. Subsequent to the payments, the Group received logs amounting to RMB47,895,000 (including value-added tax) from the three entities out of which RMB20,131,000 were sold to a customer as discussed in paragraph 5 below. The balance of RMB22,254,000 was included in inventories but were assessed by a professional valuer to be of no commercial value as at 31 December 2011 and therefore these inventories were fully written-down. According to the purchase contracts, the three entities shall refund the balance of prepayments to the Group for which no delivery of logs are taken place upon expiry of the contracts agreed to be in June and July 2011, however, no refund was received by the Group. As a result, an amount of RMB90,362,000 prepaid to the three entities together with the balance of RMB35,200,000 brought forward from prior year totaling RMB125,562,000 which were considered not recoverable were fully impaired and charged to the consolidated income statement. The general manager of the subsidiary who executed the purchase contracts resigned and left the subsidiary. The directors would take appropriate actions including possible legal proceedings against these entities to recover the outstanding balances and compensation.

Given the above circumstance and there is no information available for us to assess the financial position of the three entities, we were unable to obtain sufficient appropriate audit evidence relating to the validity of and the payments made under these transactions and to ascertain the recoverability of the prepayments. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to the appropriateness and accuracy of the impairment of the prepayments for purchase of inventories for the year and the valuation of the remaining balance of prepayment for purchase of inventories of RMB32,743,000 as included in the total prepayments for purchases of inventories as disclosed in note 25 to the consolidated financial statements as at 31 December 2011.

5. **Scope limitation – sales and trade receivables**

The Group was engaged in the trading of logs and lumbers during the year with various third parties which are entities and individuals in the PRC. During the year, the Group generated revenue of RMB284,855,000 from certain customers and the corresponding trade receivables with a total carrying amount of RMB122,699,000 as at 31 December 2011. Since the trade receivables were overdue and no settlements were received up to the approval date of these consolidated financial statements, the directors considered that the trade receivables were not recoverable and therefore full impairment was charged to the consolidated income statement.

We were unable to obtain sufficient appropriate audit evidence relating to the sales transactions and the basis of making provision for the impairment of trade receivables because (i) there was inadequate documentary evidence available for us to verify the receipt of goods by and settlements from customers; (ii) there was no satisfactory explanations provided to us to explain the reasons for the balances being outstanding and overdue; (iii) we were unable to carry out effective confirmation procedures in relation to the sales transactions and balances receivable for the purpose of our audit; (iv) there is no information available for us to assess the financial position of the customers and (v) there were no alternative audit procedures that we could perform to satisfy ourselves as to whether the sales transactions and impairment of trade receivables were free from material misstatement.

6. **Scope limitation – Value added tax and other taxes payable and current tax payable**

As stated in the consolidated statement of financial position and disclosed in note 31 to the consolidated financial statements, the Group recorded current tax payable and value added tax and other taxes payable of RMB62,122,000 and RMB461,046,000 respectively as at 31 December 2011. The value added tax and other taxes balances included an amount of RMB380,640,000 which were brought forward from previous years. As we were unable to obtain sufficient appropriate audit evidence regarding the sales of RMB284,550,000 as mentioned in paragraph 5 above and the sales of RMB137,815,000 of a subsidiary as stated in paragraph 7 below and the books and records in prior year were incomplete, we were unable to obtain sufficient appropriate audit evidence for us to verify the related taxes payable. There were no other practical alternative audit procedures that we could perform to satisfy ourselves as to the completeness and accuracy of the income tax of RMB62,193,000 and value added tax and other taxes of RMB88,556,000 charged to the consolidated income statement and the balances as at 31 December 2011.

7. **Scope limitation – operating results and assets and liabilities of a subsidiary**

As disclosed in note 22(b) to the consolidated financial statements, discrepancies were identified between the accounting records of a wholly-owned subsidiary, Manzhouli Yishang Forest Resource Development Co., Ltd. ("Manzhouli Yishang") and the personal bank accounts of its general manager and certain officers which were utilized to collect sales proceeds from customers and made payments to suppliers. Discrepancies were also identified between the PRC audited financial statements of Manzhouli Yishang which were submitted to the PRC tax authority and the financial information as consolidated in the consolidated financial statements. In addition, certain supporting documentary evidences were missing, therefore, we were unable to carry out satisfactory procedures to obtain reasonable assurance regarding the completeness, accuracy, existence, valuation, classification and disclosures of the transactions undertaken by Manzhouli Yishang during the year ended 31 December 2011 and the related balances as detailed in note 22(b) to the consolidated financial statements. The major items of Manzhouli Yishang included in the consolidated financial statements were sales of RMB136,579,000 loss for the year of RMB39,023,000, inventories of RMB22,550,000, trade and other receivables of RMB29,092,000 and trade and other payables of RMB9,485,000.

Due to the circumstance as stated above, we were unable to obtain sufficient appropriate audit evidence to ascertain whether the financial information of Manzhouli Yishang included in the consolidated financial statements as at and for the year ended 31 December 2011 has been properly prepared in accordance with IFRSs.

8. Scope limitation – inventories

As disclosed in note 24 to the consolidated financial statements, there were inventories with a carrying amount of RMB76,160,000 brought forward from prior year which were purchased in 2010 in cash authorised by Mr. Li Han Chun. According to the findings of the investigation conducted by the IBC, there were insufficient document to support the Group's legal title to the inventories.

Because of the books and records in prior year were incomplete, we were unable to obtain sufficient appropriate audit evidence to verify the ownership of these inventories. There were no alternative audit procedures that we could perform to satisfy ourselves as to whether the Group has title to these inventories and whether any adjustment is required to be made on their carrying amounts.

9. Scope limitation – interests in subsidiaries

As at 31 December 2011, included in the Company's statement of financial position are interests in subsidiaries of RMB2,479,992,000. Due to the scope limitations as detailed in paragraphs 2 to 8 above, we have not been able to satisfy ourselves as to the fairness of the amounts carried as the interests in subsidiaries in the Company's financial statement and we were unable to determine whether any provision for impairment loss is necessary as at 31 December 2011. Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the net assets of the Company as at 31 December 2011 and of its net loss for the year then ended and the related disclosures in the consolidated financial statements.

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

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we 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. In all other aspects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor who expressed a disclaimer of opinion on those statements on 29 April 2011.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 27 April 2012

Lam Cheung Shing
Practising Certificate Number P03552

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011

(Expressed in Renminbi)

	Note	**2011** **RMB'000**	2010 RMB'000
Turnover	7	**392,271**	1,064,025
Cost of inventory sold	24	**(448,170)**	–
Operating expenses for logging activities		**(50)**	(361,652)
Other operating income	8(a)	**22,367**	645
Amortisation of insurance premium		**(920)**	(6,009)
Amortisation of lease prepayments	20	**(9,019)**	–
Consultancy fees		**(23,123)**	(17,378)
Depreciation	19	**(4,728)**	(2,616)
Foreign exchange loss		**(37,484)**	(14,811)
Other operating expenses	8(b)	**(78,322)**	(56,523)
Rental expenses of properties		**(6,785)**	(3,699)
Staff costs	10	**(39,487)**	(32,796)
Travelling expenses		**(6,245)**	(4,791)
Impairment loss on lease prepayments	20	**(79,695)**	–
Changes in fair value of plantation assets less costs to sell and other reconciling items	21(d)	**(2,891,916)**	(2,020,000)
Impairment loss on trade receivables	25(a)	**(122,699)**	–
Impairment loss on other receivables	25(a)	**(3,800)**	–
Impairment loss on prepayment for forest acquisition	23	**(383,484)**	–
Write-down of inventories	24	**(120,070)**	(120,930)
Impairment loss on prepayment for purchase of inventories	25(b)	**(125,562)**	–
Other suspense account	11	**–**	(1,116,400)
Loss from operations		**(3,966,921)**	(2,692,935)
Finance income		**15,480**	6,873
Finance expenses		**(177,023)**	(25,758)
Net finance costs	9	**(161,543)**	(18,885)
Loss before taxation		**(4,128,464)**	(2,711,820)
Income tax	12	**(62,193)**	–
Loss for the year		**(4,190,657)**	(2,711,820)
Attributable to owners of the Company		**(4,190,657)**	(2,711,820)
Loss per share (RMB)			
Basic and diluted	17	**(1.37)**	(0.89)

The notes on pages 50 to 120 form part to of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Loss for the year		**(4,190,657)**	(2,711,820)
Other comprehensive income/(loss) for the year, net of tax			
Available-for-sale securities:			
Changes in fair value recognised during the year		–	3,128
Reclassification adjustments for gains on disposal transferred to profit or loss		–	(3,128)
Exchange differences on translation of financial statements of subsidiaries outside of the PRC		**25,674**	(18,632)
Total other comprehensive income/(loss) for the year		**25,674**	(18,632)
Total comprehensive loss for the year		**(4,164,983)**	(2,730,452)
Attributable to owners of the Company		**(4,164,983)**	(2,730,452)

The components of other comprehensive income do not have any significant tax effect for each of the years ended 31 December 2011 and 2010.

The notes on 50 to 120 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	19	**21,674**	19,493
Lease prepayments	20	**254,910**	342,163
Plantation assets	21	**2,898,000**	5,747,000
Prepayment for forest acquisition	23	**26,222**	383,484
Prepayment for purchase of leasehold land		**42,873**	–
Total non-current assets		**3,243,679**	6,492,140
Current assets			
Inventories	24	**107,135**	413,870
Trade and other receivables	25	**137,343**	50,638
Lease prepayments	20	**9,019**	–
Other financial assets	26	**–**	9,734
Financial assets at fair value through profit or loss	27	**54,676**	–
Bank deposits with maturity over 3 months	29	**59,858**	–
Cash and cash equivalents	30	**749,638**	2,784,673
Total current assets		**1,117,669**	3,258,915
Current liabilities			
Trade and other payables	31	**(614,820)**	(1,085,998)
Current tax payable		**(62,122)**	–
Total current liabilities		**(676,942)**	(1,085,998)
Net current assets		**440,727**	2,172,917
Total assets less current liabilities		**3,684,406**	8,665,057
Non-current liabilities			
Interest-bearing borrowings	32	**(1,124,833)**	(1,948,862)
Total non-current liabilities		**(1,124,833)**	(1,948,862)
NET ASSETS		**2,559,573**	6,716,195
CAPITAL AND RESERVES	34		
Share capital		**20,797**	20,797
Reserves		**2,538,776**	6,695,398
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**2,559,573**	6,716,195

Approved and authorised for issue by the board of directors on 27 April 2012:

Li Kwok Cheong
Director

Lin Pu
Director

The notes on pages 50 to 120 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Interests in subsidiaries	22	**2,479,992**	–
Total non-current assets		**2,479,992**	–
Current assets			
Trade and other receivables	25	**5,014**	1,467
Other financial assets	26	**–**	9,734
Due from subsidiaries	28	**–**	2,916,178
Cash and cash equivalents	30	**3,719**	664,131
Total current assets		**8,733**	3,591,510
Current liabilities			
Due to subsidiaries	28	**(1,050)**	(1,028)
Trade and other payables	31	**(25,508)**	(44,613)
Total current liabilities		**(26,558)**	(45,641)
Net current (liabilities)/assets		**(17,825)**	3,545,869
Total assets less current liabilities		**2,462,167**	3,545,869
Non-current liabilities			
Interest-bearing borrowings	32	**(1,124,833)**	(1,948,862)
Total non-current liabilities		**(1,124,833)**	(1,948,862)
NET ASSETS		**1,337,334**	1,597,007
CAPITAL AND RESERVES	34		
Share capital		**20,797**	20,797
Reserves		**1,316,537**	1,576,210
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,337,334**	1,597,007

Approved and authorised for issue by the board of directors on 27 April 2012:

Li Kwok Cheong
Director

Lin Pu
Director

The notes on pages 50 to 120 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

(Expressed in Renminbi)

	Note	Share capital RMB'000 (note 34(c))	Share premium RMB'000 (note 34(e))	Statutory surplus reserve RMB'000 (note 34(e))	Capital reserve RMB'000 (note 34(e))	Exchange reserve RMB'000 (note 34(e))	Retained profits RMB'000	Total equity RMB'000
At 1 January 2010		20,797	1,875,860	170,865	88,557	(1,333)	7,439,713	9,594,459
Loss for the year		–	–	–	–	–	(2,711,820)	(2,711,820)
Available-for-sale securities:								
Changes in fair value recognised during the year		–	–	–	–	3,128	–	3,128
Reclassification adjustments for gain on disposal transferred to profit or loss		–	–	–	–	(3,128)	–	(3,128)
Exchange differences on translation of financial statements of subsidiaries outside of the PRC		–	–	–	–	(18,632)	–	(18,632)
Total other comprehensive income		–	–	–	–	(18,632)	–	(18,632)
Total comprehensive loss for the year		–	–	–	–	(18,632)	(2,711,820)	(2,730,452)
Transactions with owners								
Dividends approved and paid in respect of the previous year	34(b)	–	(157,911)	–	–	–	–	(157,911)
Equity-settled share-based transactions	33	–	–	–	10,099	–	–	10,099
		–	(157,911)	–	10,099	–	–	(147,812)
At 31 December 2010		20,797	1,717,949	170,865	98,656	(19,965)	4,727,893	6,716,195
At 1 January 2011		20,797	1,717,949	170,865	98,656	(19,965)	4,727,893	6,716,195
Loss for the year		–	–	–	–	–	(4,190,657)	(4,190,657)
Exchange differences on translation of financial statements of subsidiaries outside of the PRC		–	–	–	–	25,674	–	25,674
Total other comprehensive income		–	–	–	–	25,674	–	25,674
Total comprehensive loss for the year		–	–	–	–	25,674	(4,190,657)	(4,164,983)
Transactions with owners								
Equity-settled share-based transactions	33	–	–	–	8,361	–	–	8,361
Transfer to retained profits upon forfeiture of share options	33	–	–	–	(10,678)	–	10,678	–
		–	–	–	(2,317)	–	10,678	8,361
At 31 December 2011		20,797	1,717,949	170,865	96,339	5,709	547,914	2,559,573

The notes on pages 50 to 120 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2011

(Expressed in Renminbi)

	Note	**2011** RMB'000
Operating activities		
Loss before taxation		(4,128,464)
Adjustments for:		
– Amortisation of lease prepayments	20	9,019
– Changes in fair value of plantation assets less costs to sell and other reconciling items	21	2,891,916
– Changes in fair value of derivative financial instruments	9	9,507
– Fair value loss on financial assets at fair value through profit or loss	8(b)	9,432
– Depreciation	19	4,728
– Impairment loss on lease prepayments	20	79,695
– Write down of inventories	24	120,070
– Impairment loss on prepayment for forest acquisition	23	383,484
– Impairment loss on prepayment for purchase of inventories	25(b)	125,562
– Impairment loss on trade receivables	25(a)	122,699
– Impairment loss on other receivables	25(a)	3,800
– Loss on disposal of property, plant and equipment	8(b)	1,528
– Equity-settled share-based payment expenses	33	8,361
– Loss on repurchase of interest-bearing borrowings	9 and 32	23,020
– Foreign exchange gain		(3,284)
– Interest expenses	9	144,398
– Interest income	9	(15,480)
		(210,009)
Changes in working capital		
Decrease in inventories		186,665
Increase in other receivables		(338,830)
Increase in financial assets at fair value through profit or loss		(64,913)
Increase in trade and other payables		76,215
Cash used in operations		(350,872)
PRC income tax paid		(71)
Net cash used in operating activities		(350,943)
Investing activities		
Proceeds from disposal of property, plant and equipment		21
Payment for purchase of property, plant and equipment	19	(8,804)
Payment for forest acquisition		(625,819)
Payment for purchase of leasehold land		(42,873)
Increase in bank deposits		(59,858)
Interest received		15,480
Net cash used in investing activities		(721,853)

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2011

(Expressed in Renminbi)

	Note	2011 RMB'000
Financing activities		
Payments for repurchase of interest-bearing borrowings	32	(776,799)
Payment of interest expenses		(123,074)
Net cash used in financing activities		(899,873)
Net decrease in cash and cash equivalents		(1,972,669)
Cash and cash equivalents at 1 January	30	2,784,673
Effect of foreign exchange rate change		(62,366)
Cash and cash equivalents at 31 December	30	749,638

The notes on pages 50 to 120 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2011
(Expressed in Renminbi)

1. GENERAL INFORMATION

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

2. BASIS OF PRESENTATION

(a) Update on investigations

During the audit process in respect of the financial year ended 31 December 2010, irregularities have been reported by KPMG, the predecessor auditor (the "Predecessor Auditor") of the Company (the "Irregularities"). As a result, an independent board committee (the "Independent Committee") was formed which composed of a non-executive director who is independent to the Irregularities and two independent non-executive directors of the Company 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 Group have been terminated. On 24 February 2011, Mr. Li has been detained by the public security bureau of Guizhou Province the PRC for the alleged embezzlement of funds of approximately RMB30 million. On 17 February 2012, the Board removed Mr. Li as an executive director of the Company.

According to the findings from the investigation, 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 the 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 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 accounted 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 for the year ended 31 December 2010.

2. BASIS OF PRESENTATION

(a) Update on investigations *(continued)*

With the admissions made by Mr. Li, the Board understood that all sales in 2010 were conducted on a cash basis and most of the sales proceeds have not been deposited into the bank accounts of Kunming Ultra Big during the period to 31 December 2010. As advised by Mr. Li, he and his team used the proceeds from cash sales to purchase timber logs from individual farmers and to pay out the operating costs and expenses relating to harvesting activities and, since the second half of 2010, he and his team started to purchase timber logs in Northeast China. All these transactions were recorded in daily cash books ("Cash Records") which were concealed from the Board and the Predecessor Auditor. Meanwhile, various falsified documents and records, including management accounts, harvesting records, bank statements, bank pay in slips and supporting documentary evidences were presented by Mr. Li and his team to the Predecessor Auditor for examination during the process of the 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 payments had been properly made for the acquisition of assets and for defraying costs and expenses from the bank accounts of Kunming Ultra Big. 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 the period before 2010. Although the reliability of the Cash Records for 2010 was questionable, the directors have prepared the consolidated financial statements for the year ended 31 December 2010 based on the Cash Records for 2010 and other available information as detailed in note 2(b) below. Other than the Cash Records for 2010, the directors did not found any Cash Records for 2011. The books and records of Kunming Ultra Big for the year ended 31 December 2011 were based upon its bank statements and the personal bank statements of certain employees as discussed below.

In addition to 2010, the IBC also extended the scope of the investigation to 2011 and March 2012 in certain areas such sales transactions and bank balances of significant payments and receipts and payment records and related supporting documents for sales transactions and payment records for acquisition of forests. The findings of investigation indicated that Kunming Ultra Big sales of logs through Manzhouli Yishang and Yichun Jingfeng and the receipts of such sales were through certain personal bank accounts of officers and employees. In addition, transactions recorded in the personal bank statements of employees of Manzhouli Yishang cannot be reconciled with the accounting records of Manzhouli Yishang and sales conducted through the personal bank accounts of employees of Manzhouli Yishang cannot be verified. The directors became aware of the use of personal bank accounts in August 2011 and new controls for using personal bank accounts were implemented in September 2011.

Through the investigation, the directors also understood that Manzhouli Yishang maintained different sets of books and there were un-reconciled discrepancies between the PRC audited financial statements and the financial information included these consolidated financial statements. The directors have directed the local management of Manzhouli Yishang to stop maintaining different sets of books at the beginning of 2012.

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 since then they were not contactable.

2. BASIS OF PRESENTATION *(CONTINUED)*

(b) Comparative information

Given the questionable reliability of the Cash Records and in the absence of Mr. Li, Ms. Wu and Mr. Zhang to explain and validate the state of affairs of Kunming Ultra Big, it is impossible for the Board to ascertain the true and correct financial position and profit or loss of Kunming Ultra Big as at and for the period to 31 December 2010 and to reconstruct accurate accounting records for the Group as the verification of the information, with external and independent sources is either not available or unreliable due to counterparties, connections with Mr. Li, Ms. Wu and Mr. Zhang or their team.

The Board, however, had used its best effort, to the extent practicable, to reconstruct as much as possible the accounting records of the Group for the year ended 31 December 2010 by applying their best estimates and judgement based on the information that was available to them based on on bank statements independently obtained from the respective banks, the result of a physical stock take conducted by independent professional parties and direct confirmations from the respective local forest bureaus and a legal opinion from their 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 period to 31 December 2010. From the review that the Independent Committee had completed in tracking the cash flows of the PRC subsidiaries, the Independent Committee had identified that there were numerous payments that could not be properly or clearly explained and supported. The above revelation casted serious doubts over the reliability and accuracy of the accounting and other records presented to the Board, and of the financial statements of the Company and the Group for 2010 and prior years. As a consequence, the Board had reasons to believe that the financial statements in the previous years might not reflect the true and fair view of the Group's results and financial position. Due to the loss of some books and records, and lack of cooperation not impossible, from Mr. Li, Ms. Wu and Mr. Zhang and their team, the Board believed that it was not practical, if not impossible, to verify the financial information as reported in the consolidated financial statements of the Group for the year ended 31 December 2010 and past years.

Accordingly, the comparative financial information disclosed in the financial statements has not been adjusted or reclassified on a basis consistent with the current year and therefore may not be comparable with the figures for the current year.

Due to the limitations aforementioned, the following disclosures have not been made in the consolidated financial statements for the year ended 31 December 2010:

– 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").

2. BASIS OF PRESENTATION *(CONTINUED)*

(b) Comparative information *(continued)*

- 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 International Accounting Standards ("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 year ended 31 December 2010 and estimates of the physical quantities of biological asset as at 31 December 2010 and output of agricultural produce during the year ended 31 December 2010 as required by IAS 41, Agriculture.

Due to insufficient information available to the Board, the consolidated financial statements for the year ended 31 December 2010 do not contain a consolidated statement of cash flows as required by IAS 7, Statement of Cash Flows, disclosure on movement of interest-bearing borrowings, capital management and segment information.

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

As the consolidated financial statements for the year ended 31 December 2010 have been prepared based on the incomplete books and records available to the Company, the Directors of the Company 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 for the year ended 31 December 2010. In this connection, the Directors of the Company are also unable to represent as to the completeness, existence and accuracy of identification and the disclosures made in the comparative figures in respect of turnover in note 7, other operating income and expenses in note 8, staff costs in note 10, income tax in note 12, directors' emoluments in note 13, individuals with highest emoluments in note 14, loss attributable to owners of the Company in note 15, loss per share in note 17, property, plant and equipment in note 19, lease prepayments in note 20, plantation assets in note 21, prepayment for forest acquisition in note 23, inventories in note 24, trade and other receivables in note 25, amounts due from/to subsidiaries in note 28, cash and cash equivalents in note 30, trade and other payables in note 31, capital, reserves and dividends in note 34 and related party disclosures in note 35.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARD

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and IFRS Interpretations Committee (formerly known as the International Financial Reporting Interpretations Committee) (the "IFRIC") of the IASB that are effective for the Group's financial year beginning 1 January 2011.

Amendments to IFRSs	Improvements to IFRSs issued in 2010
Amendments to IAS 32	Classification of rights issues
Amendments to IFRIC 14	Prepayments of a minimum funding requirement
IFRIC 19	Extinguishing financial liabilities with equity instruments

The adoption of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs in issue but not yet effective

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

Amendments to IFRS 7	Disclosures — Transfers of financial assets[1]
Amendments to IFRS 7	Disclosures — Offsetting financial assets and financial liabilities[2]
IFRS 9	Financial instruments[3]
Amendments to IFRS 7 and IFRS 9	Mandatory effective date of IFRS 9 and transition disclosures[3]
IFRS 10	Consolidated financial statements[2]
IFRS 11	Joint arrangements[2]
IFRS 12	Disclosure of interests in other entities[2]
IFRS 13	Fair value measurement[2]
Amendments to IAS 1	Presentation of items of other comprehensive income[5]
Amendments to IAS 12	Deferred tax: Recovery of underlying assets[4]
IAS 19 (as revised in 2011)	Employee benefits[2]
IAS 27 (as revised in 2011)	Separate financial statements[2]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[6]
IFRIC 20	Stripping costs in the production phase of a surface mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

The directors of the Company anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and financial positions of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

Except for the matters referred in note 2, these financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statement also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries. The consolidated financial statements are presented in Renminbi ("RMB"), has been rounded to the nearest thousand. The functional currency of the entities within the Group is Hong Kong dollars ("HK$") except for the subsidiaries established in the PRC where the functional currency is RMB. As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group.

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

- financial instruments classified as financial assets at fair value through profit or loss (see note 4(d));
- derivative financial instruments (see note 4(e)); and
- plantation assets (see note 4(g)).

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

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 5 to the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

c) Subsidiaries and non-controlling interests

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

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

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 4(m) or 4(o) depending on the nature of the liability.

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 4(n)).

(d) Financial asset at fair value through profit or loss

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

(e) Derivative financial instruments

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

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

f) Property, plant and equipment

Property, plant and equipment are carried at cost less any accumulated depreciation and accumulated impairment losses (see note 4(n)).

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

g) Plantation assets

Plantation assets comprise of forest crop in the PRC.

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

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

h) Lease prepayments

Lease prepayments represent that land portion allocated from the purchase consideration of forest acquired by the Group. The lease prepayments are stated at costs and are amortised over the respective terms of the land use rights on a straight-line basis.

i) Prepayment for purchase of leasehold land

Prepayment for purchase of leasehold land is stated at cost less any impairment losses (see note 4(n)) and represents payments made to acquire land use rights before the issuance of the relevant land use right certificates.

j) Inventories

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

Inventories are measured at the lower of cost and net realisable value. The cost of harvested timber transferred from plantation assets is its fair value less costs to sell at the point of harvest, determined in accordance with the accounting policy for plantation assets (see note 4(g)). The cost of other inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter carried at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 4(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are carried at cost less allowance for impairment of doubtful debts.

l) Cash and cash equivalents

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

m) Trade and other payables

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

n) Impairment of assets

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

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

– significant financial difficulty of the debtor;

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n) Impairment of assets

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

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

– For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 4(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 4(n)(ii).

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n) Impairment of assets

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

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

ii) Impairment of other assets

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

– property, plant and equipment;

– lease prepayments;

– prepayment for forest acquisition;

– prepayment for purchase of leasehold land.

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

– Calculation of recoverable amount

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

n) Impairment of assets *(continued)*

ii) Impairment of other assets *(continued)*

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

iii) Interim financial reporting and impairment

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

o) Interest-bearing borrowings

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

p) Income tax

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

p) Income tax *(continued)*

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

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

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

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

  - the same taxable entity; or

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

q) Operating lease charges

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

r) Translation of foreign currencies

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

r) Translation of foreign currencies *(continued)*

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

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions.

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

s) Employee benefits

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

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

ii) Share-based payments

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

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

iii) Termination benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

t) Provisions and contingent liabilities

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

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

u) Related parties

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

   i) has control or joint control over the Group;

   ii) has significant influence over the Group; or

   iii) is a member of the key management personnel of the Group or the Group's parent.

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

   i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   iii) Both entities are joint ventures of the same third party.

   iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

   vi) The entity is controlled or jointly controlled by a person identified in note 4(u)(a).

   vii) A person identified in note 4(u)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

v) Segment reporting

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

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

w) Revenue

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

i) Sale of goods

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

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

ii) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

iii) Government grants

An unconditional government grant related to the plantation assets is recognised in profit or loss as other income when the grant becomes receivable.

5. ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

i) Fair value of plantation assets

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

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

ii) Useful lives of property, plant and equipment

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

iii) Income taxes

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

5. ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

b) Key sources of estimation uncertainty

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

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

The Group assesses whether there are any indicators of impairment for all property, plant and equipment and lease prepayments at the end of each reporting period. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of property, plant and equipment and lease prepayments as at 31 December 2011 was RMB21,674,000 (2010: RMB19,493,000) and RMB263,929,000 (2010: RMB342,163,000), respectively.

ii) Estimated provision for impairment of trade and other receivables

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

The carrying amount of trade and other receivables as at 31 December 2011 was RMB32,502,000 (2010: RMB4,548,000) (note 25).

5. ACCOUNTING JUDGEMENTS AND ESTIMATES *(CONTINUED)*

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

iii) Estimated net realisable value of inventories

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

The carrying amount of inventories as at 31 December 2011 was RMB107,135,000 (2010: RMB413,870,000) (note 24).

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. No deferred tax assets or liabilities was recognised as at 31 December 2011.

At the end of the reporting period, the Group has tax losses of RMB51,434,000 that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised as it is not probable that future taxable profits against which the losses can be utilised will be available for the companies in which losses arose. The tax losses may be carried forward for five years for PRC enterprise income tax purpose. The tax losses do not expire under the current tax legislation.

6. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

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

i) Currency risk

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

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

A) Exposure to currency risk

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

	The Group		**The Company**
	2011		**2011**
	Exposure to foreign currencies (expressed in RMB'000)		
Denominated in	**USD**	**HK$**	**USD**
Financial assets at fair value through profit or loss	**54,676**	**–**	–
Trade and other receivables	**–**	**3,140**	**–**
Bank deposits with maturity over 3 months	**59,858**	**–**	**–**
Cash and cash equivalents	**456,080**	**–**	**–**
Trade and other payables	**–**	**(29,267)**	**–**
Interest-bearing borrowings	**(1,124,833)**	**–**	**(1,124,833)**
Net exposure arising from recognised assets and liabilities	**(554,219)**	**(26,127)**	**(1,124,833)**

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

i) Currency risk *(continued)*

B) Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 5% in the exchange rate of RMB against USD/HK$ while all other variables are held constant. 5% is the sensitivity rate used when reporting foreign currency risk internally adopted by management and represents management's assessment of a reasonably possible change in foreign exchange rates over the next annual reporting period to which the Group has significant exposure at the end of the reporting period. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusted at the end of each reporting period for a 5% change in foreign currency rates.

A positive number below indicates an decrease in loss for the year where RMB weakens by 5% against the relevant currency. For a 5% strengthening of RMB against the relevant currency, there would be an equal and opposite impact on loss.

The Group

	2011 **RMB'000**
Effect on loss after tax	**18,257**
Effect on retained profits	**18,257**

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

ii) Interest rate risk

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

(A) Interest rate profile

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

	The Group and the Company	
	2011	
	Effective interest rates	
	%	**RMB'000**
Fixed rate:		
Interest-bearing borrowings	**10.25%**	**1,124,833**

(B) Sensitivity analysis

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

iii) Credit risk

a) At 31 December 2011, the Group's and the Company's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, arises from the carrying amounts of trade and other receivables, bank deposits and cash and cash equivalents as carried in the statements of financial position. In order to minimise credit risks, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

iii) **Credit risk** *(continued)*

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

c) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the end of the reporting period, the Group had a concentration of credit risk as all the trade receivable as at 31 December 2011 was due from a customer.

iv) **Liquidity risk**

To manage liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the directors to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group held cash and cash equivalents amounting to approximately RMB749,638,000 at 31 December 2011 (2010: RMB2,784,673,000).

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

The Group

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at the end of the reporting period RMB'000
2011					
Trade and other payables	141,098	–	–	141,098	141,098
Interest-bearing borrowings	117,661	117,661	1,369,048	1,604,370	1,124,833
	258,759	117,661	1,369,048	1,745,468	1,265,931

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

iv) Liquidity risk

The Company

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at the end of the reporting period RMB'000
2011					
Trade and other payables	25,508	–	–	25,508	25,508
Interest-bearing borrowings	117,661	117,661	1,369,048	1,604,370	1,124,833
	143,169	117,661	1,369,048	1,629,878	1,150,341

v) Price risk

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

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

The sensitivity analysis has been determined assuming that the reasonably possible changes in the market price or other relevant risk variables had occurred at the end of the reporting period and had been applied to the exposure to debt prices in existence at that date. It also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant market price or the relevant risk variables, that none of the Group's debt investments would be considered impaired as a result of a reasonably possible decrease in the relevant market price or other relevant risk variable, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant market price or the relevant risk variables over the period until the end of the next annual reporting period.

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

There were no significant transfers between instruments in Level 1, 2 and Level 3 during the year.

The carrying amount of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2011 except as follows:

	The Group and the Company	
	2011	
	Carrying amount RMB'000	**Fair value RMB'000**
Financial liabilities		
– Interest-bearing borrowings	**1,124,833**	**780,579**

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

Financial risk management objectives and policies *(continued)*

(vii) Natural risk

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by the local forestry authorities. Other than the above-mentioned quotas, the Group's revenue also depends significantly on the ability to harvest 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. Weather conditions such as floods, droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting, or otherwise impede the Group's logging operations or the growth of the trees in the forests.

(viii) Regulatory and environmental risks

The Group is subject to laws and regulations in the PRC in which it operates. The Group has established environmental policies and procedures aimed at 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. The directors are not aware of any environmental liabilities at 31 December 2011.

(ix) Supply and demand risk

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

(x) Estimation of fair values

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

(a) Interest-bearing borrowings

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

(b) Financial assets at fair value through profit or loss

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

7. TURNOVER

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

As disclosed in note 2(a) to the consolidated financial statements, various falsified documents and sales records were presented by Mr. Li and his team. Mr. Li was removed by the Board as the chief executive officer and executive director on 14 February 2011 and 17 February 2012 respectively. Ms. Wu, Mr. Zhang and certain key members of accounting and finance function and resource management department have not reported for work since mid-February 2011 and they are not contactable. The Board of Directors is therefore unable to locate all of the relevant sales records for the year ended 31 December 2010.

Given the loss of some books and records, the reliability of the Cash Records found and the absence of key personnel, the Board believes that it is not practicable if not impossible to ascertain the completeness, existence and accuracy of the turnover of the Group for the year ended 31 December 2010.

	2011 **RMB'000**
Revenue from trading of timber logs and lumbers	**392,271**

8. OTHER OPERATING INCOME AND EXPENSES

a) Other operating income

	2011 **RMB'000**	2010 RMB'000
Government grants	**684**	484
Other trading income	**–**	137
Recovery of prepayment for forest acquisitions previously charged to consolidated income statement	**20,000**	–
Others	**1,683**	24
	22,367	645

b) Other operating expenses

The other operating expenses included auditor's remuneration, loss on disposal of property, plant and equipment and fair value loss on financial assets at fair value through profit or loss of RMB3,496,000, RMB1,528,000 and RMB9,432,000, respectively for the year ended 31 December 2011.

The other operating expenses included auditor's remuneration of RMB9,574,000 for the year ended 31 December 2010.

As disclosed in note 2(b), 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 operating income and expenses for the year ended 31 December 2010.

9. NET FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Finance income		
Interest income from available-for-sale securities	–	1,884
Interest income earned from deposits with banks	11,627	1,861
Total interest income on financial assets not at fair value through profit or loss	11,627	3,745
Gain on disposal of available-for-sale financial assets	–	3,128
Interest income from financial assets at fair value through profit or loss	3,853	–
	15,480	6,873
Finance expenses		
Interest on borrowings wholly repayable within five years (see note 32)	(144,398)	(20,289)
Total interest expense on financial liabilities not at fair value through profit or loss	(144,398)	(20,289)
Loss on repurchase of interest-bearing borrowings	(23,020)	–
Change in fair value of derivative financial instruments	(9,507)	(5,418)
Others	(98)	(51)
	(177,023)	(25,758)
Net finance costs	(161,543)	(18,885)

10. STAFF COSTS

	2011 RMB'000	2010 RMB'000
Salaries, wages and other benefits	28,216	22,002
Contributions to defined contribution retirement schemes	2,910	695
Equity-settled share-based payment expenses (see note 33)	8,361	10,099
	39,487	32,796

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes ("the Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of approximately 20% (2010: 20%) of the standard wages determined by the relevant authorities during the year ended 31 December 2011. Contributions to the Schemes vest immediately.

10. STAFF COSTS *(CONTINUED)*

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(b), 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 staff costs for the year ended 31 December 2010.

11. OTHER SUSPENSE ACCOUNT

As disclosed in note 2(b), certain documents and information could not be located and there were numerous payments that could not be supported and properly explained. Due to the limitation of information, the comparative information for 2010 has not been restated, and has been adopted as the assumed opening balance as at 1 January 2010. The "other suspense account" represents the accumulated financial effect of unknown transactions and the net adjustment required to account for the differences between the opening and closing equity attributable to the owners for the year ended 31 December 2010 as estimated by the directors to the best of the information available to them, as disclosed in note 2, other than movement in the plantation assets as disclosed in note 21.

12. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

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

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

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

Notes:

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

b) No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2011 and 2010.

c) Under the PRC tax law, the Enterprise Income Tax rate of the PRC was 25% for the year ended 31 December 2011 (2010: 25%). Pursuant to section 27 of the PRC tax law and section 86 of the Implementation Regulations of the PRC tax law, the entity's income derived from forestry business is exempt from income tax. The following is a reconciliation between tax expense and accounting loss at applicable tax rate:

	2011 **RMB'000**	2010 RMB'000
Loss before taxation	**(4,128,464)**	(2,711,820)
Notional tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**(1,012,765)**	(671,764)
Tax effect of tax concessions	**–**	(985)
Tax effect of non-taxable income	**(71,615)**	–
Tax effect of non-deductible expenses	**1,134,282**	672,749
Tax effect of unused tax losses not recognised	**12,209**	–
Under-provision in prior years	**9**	–
Others	**73**	–
Actual tax expense	**62,193**	–

Under the PRC tax law, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 are subject to the above-mentioned withholding tax. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future. The aggregate amounts of temporary differences associated with undistributed retained earnings and the related deferred tax liabilities which were not recognised because distribution of earnings was not expected in the foreseeable future amounted to RMB1,337,492,000 and RMB66,875,000 respectively as at 31 December 2011 (2010: RMB4,938,378,000 and RMB246,919,000 as reported respectively).

As disclosed in note 2(b), 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 deferred tax liabilities as at 31 December 2010.

13. DIRECTORS' EMOLUMENTS

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

2011

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

13. DIRECTORS' EMOLUMENTS *(CONTINUED)*

2010

	Directors' fees RMB'000	Basic salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Share-based payments RMB'000 (note)	Total RMB'000
Chairman							
Li Kwok Cheong	1,200	3,064	–	–	4,264	–	4,264
Executive director							
Li Han Chun	1,200	2,220	30	29	3,479	1,890	5,369
Sub-total	2,400	5,284	30	29	7,743	1,890	9,633
Non-executive directors							
Li Zhi Tong	300	–	–	–	300	–	300
Xiao Feng	300	–	–	–	300	–	300
Sub-total	600	–	–	–	600	–	600
Independent non-executive directors							
Liu Can	300	–	–	–	300	–	300
Wang Wei Ying	300	–	–	–	300	–	300
Wong Tak-jun	348	–	–	–	348	–	348
Sub-total	948	–	–	–	948	–	948
Total	3,948	5,284	30	29	9,291	1,890	11,181

As disclosed in note 2(b), 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 directors' remuneration for the year ended 31 December 2010.

No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2011 and 2010. During the year ended 31 December 2011, Mr. Xiao Feng has waived his emoluments in the amount of RMB225,000 and has agreed to waive all his emoluments in the future. Other than Mr. Xiao Feng, no director waived or agreed to waive any emoluments during the years ended 31 December 2011 and 2010.

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4(s)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share options" in the note 33.

14. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group include two (2010: two) directors for the year ended 31 December 2011, whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the other three (2010: three) individuals are as follows:

	2011 **RMB'000**	2010 RMB'000
Basic salaries, allowances and benefits in kind	**4,273**	2,482
Discretionary bonuses	**66**	200
Share-based payments	**2,465**	2,835
Retirement scheme contributions	**19**	66
	6,823	5,583

The emoluments of three individuals (2010: three) with highest emoluments are within the following bands:

	2011	2010
HK$Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	–
HK$2,000,001 to HK$2,500,000	**1**	3
HK$4,000,001 to HK$4,500,000	**1**	–

As disclosed in note 2(b), 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 disclosures on individuals with highest emoluments for the year ended 31 December 2010.

15. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company includes a loss of RMB211,081,000 (2010: RMB59,569,000) which has been dealt with in the financial statements of the Company.

As disclosed in note 2(b), 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 loss attributable to owners of the Company which has been dealt with in the financial statements of the Company for the year ended 31 December 2010.

16. SEASONALITY OF OPERATIONS

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

17. LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share for the year ended 31 December 2011 is based on the loss attributable to owners of the Company of RMB4,190,657,000 (2010: RMB2,711,820,000) and the weighted average number of 3,060,452,000 (2010: 3,060,452,000) ordinary shares in issue during the year. As disclosed in note 2(b), on the basis that the relevant books and records are either lost or are incomplete, the loss attributable to owners of the Company for the year ended 31 December 2010 may not be accurate. No representation is made by the Board as to the accuracy of the loss per share of the Company for the year ended 31 December 2010.

Diluted loss per share

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

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.

18. SEGMENT INFORMATION

The Group manages its business by division which is organised from the product perspective.

Operating segments are identified on the basis of internal reports which provides information about components of the Group. These information are reported to and reviewed by the board of directors, being the chief operating decision-makers ("CODM") for the purposes of resource allocation and performance assessment. The Group has presented the following two reportable segments, no operating segment has been aggregated to form following reportable segments:

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

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

Segment revenue and results

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

For the year ended 31 December 2011

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

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment loss represents the loss from each segment without allocation of unallocated finance income, unallocated interest expenses, unallocated other operating income, unallocated corporate expenses, loss on fair value changes in derivative financial instruments, fair value loss on financial assets at fair value through profit or loss and loss on repurchase of interest-bearing borrowings. This is the measure reported to CODM of the Company for the purposes of resources allocation and performance assessment.

18. SEGMENT INFORMATION *(CONTINUED)*

Segment assets and liabilities

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

Segment assets

	2011 RMB'000
Assets	
Forestry management	**3,328,002**
Trading operation	**728,395**
Total segment assets	**4,056,397**
Financial assets at fair value through profit or loss	**54,676**
Unallocated corporate assets	**250,275**
Consolidated assets	**4,361,348**

Segment liabilities

	2011 RMB'000
Liabilities	
Forestry management	**498,099**
Trading operation	**82,695**
Total segment liabilities	**580,794**
Interest-bearing borrowings	**1,124,833**
Current tax payable	**62,122**
Unallocated corporate liabilities	**34,026**
Consolidated liabilities	**1,801,775**

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

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

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

18. SEGMENT INFORMATION *(CONTINUED)*

Other segment information

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

Geographical information

The Group's revenue from external customers is derived solely from its operations in the PRC and all material non-current assets of the Group are located in the PRC. Accordingly, no disclosure of geographical information is provided.

Information about major customers

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

	2011 RMB'000
Customer A – revenue from sales of timber logs and lumbers	86,250
Customer B – revenue from sales of timber logs and lumbers	61,758

19. PROPERTY, PLANT AND EQUIPMENT

The Group

	Office equipment RMB'000	Furniture and fittings RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Total RMB'000
Cost						
At 1 January 2011	891	13,601	6,346	2,151	–	22,989
Exchange adjustments	(3)	(475)	–	(1)	–	(479)
Additions	1,238	1,111	3,141	2,874	440	8,804
Disposals	(106)	(355)	–	(1,531)	–	(1,992)
At 31 December 2011	2,020	13,882	9,487	3,493	440	29,322
Accumulated depreciation						
At 1 January 2011	204	2,644	619	29	–	3,496
Exchange adjustments	(2)	(131)	–	–	–	(133)
Charge for the year	314	2,719	1,081	554	60	4,728
Disposals	(40)	(110)	–	(293)	–	(443)
At 31 December 2011	476	5,122	1,700	290	60	7,648
Carrying amount						
At 31 December 2011	1,544	8,760	7,787	3,203	380	21,674
At 31 December 2010						19,493

As disclosed in note 2(b), 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 property, plant and equipment of the Group at 31 December 2010.

20. LEASE PREPAYMENTS

	Note	The Group 2011 RMB'000
At 1 January		**342,163**
Additions		**10,480**
Release to the consolidated income statement for the year		**(9,019)**
Impairment	(b)	**(79,695)**
At 31 December		**263,929**
Analysed for reporting purpose		
Current assets		**9,019**
Non-current assets		**254,910**
		263,929
Location		**RMB'000**
Yunnan, the PRC	(d)	**209,477**
Sichuan, the PRC	(e)	**54,452**
		263,929
Held outside Hong Kong		
Medium term lease		**212,107**
Long term lease		**51,822**
		263,929

	2010 RMB'000
Net book value	342,163

Notes:

(a) Lease prepayments represent the amount allocated as land portion from the consideration in respect of the forests acquired by the Group in the PRC. Usage of the land is regulated by the implementation regulations of PRC forest law issued by the State Council of the PRC.

(b) Impairment of lease payments

	Note	RMB'000
Yunnan	(d)	73,610
Guizhou	(c)	6,085
		79,695

(c) As disclosed in note 21 (c), the directors believes the forestry ownership certificates for 2,000 hectares of forests in Guizhou are falsified copies, the directors considered that it is appropriate to impair the related lease prepayments in the consolidated income statement.

20. LEASE PREPAYMENTS *(CONTINUED)*

Notes: *(continued)*

(d) The lease prepayments relating to Yunnan represents the amount allocated as the land portion from the total consideration as estimated by the directors for forests acquired in 2010 and the carrying amount brought forward from 2009. As disclosed in note 21(b), the Group held approximately 203,000 hectares of forests in Yunnan as at 31 December 2010 of which forestry ownership certificates have been issued for approximately 53,000 hectares of forests during the year. Together with the forestry ownership certificates for approximately 14,000 hectares of forests discovered, the Group held forestry ownership certificates for approximately 67,000 hectares of forests in Yunan. The lease prepayment with a carrying amount of RMB73,610,000 in respect of the remaining approximately 96,000 hectares of forests for which there are uncertainties in obtaining the forestry ownership certificates were fully impaired. As disclosed in note 2(b), owing to the loss of books and records, the directors are unable to determine the value of the land portion of the forests acquired in 2010. During the year ended 31 December 2010, the directors have applied their best estimate based on historical data to separate the value of the land portion from the total consideration of forests. Given the loss of books and records, unreliability of records found and the absence of key personnel, the Group is in the process of rebuilding the forestry database, but has not obtained adequate information regarding the lease period of the forests. The directors therefore believes that it is not practicable, if not impossible, to ascertain the amortisation or the completeness and accuracy of the lease prepayments of the Group for 2010.

(e) During the year ended 31 December 2011, the Group obtained all the forestry ownership certificates for approximately 26,000 hectares of forests in Sichuan. Together with approximately 7,000 hectares of new forests acquired during the year, the Group held approximately 33,000 hectares of forests in Sichuan for which forestry ownership certificates have been issued.

21. PLANTATION ASSETS

		The Group	
	Note	**2011 RMB'000**	2010 RMB'000
At 1 January		**5,747,000**	7,767,000
Increase due to purchases	(a), (d)	**300,000**	N/A
Change in fair value less costs to sell and other reconciling items	(d)	**(3,149,000)**	(2,020,000)
At 31 December		**2,898,000**	5,747,000

		Area	Amount
Location of plantation assets	Note	**2011 Hectares**	**2011 RMB'000**
Sichuan Province	(a)	**33,000**	**1,142,000**
Yunnan Province	(b)	**121,000**	**1,756,000**
Guizhou Province	(c)	**–**	**–**
		154,000	**2,898,000**

21. PLANTATION ASSETS *(CONTINUED)*

Note:

(a) During the year ended 31 December 2011, the Group obtained all the forestry ownership certificates for approximately 26,000 hectares of forests in Sichuan brought forward from 2010. Together with approximately 7,000 hectares of new forests acquired during the year, the Group held approximately 33,000 hectares of forests in Sichuan for which forestry ownership certificates have been issued as at 31 December 2011. In 2011, the Group conducted various activities including working on a program for assessing the species mix and forest volume of the forests with Chandler Fraser Keating Limited ("CFK") in Sichuan. CFK is a privately-owned specialist forest consulting firm headquartered in New Zealand. With the additional information and physical inspections conducted by CFK, CFK considered that it has sufficient information to provide an unqualified opinion as to the fair value less costs to sell on the plantation assets located in Sichuan. As at 31 December 2011, the plantation assets in Sichuan represent standing timber acquired, planted and managed by the Group and comprise approximately 33,000 hectares of tree plantations with age 20 years or older. The details of the key assumptions used in the valuation are set in note (e) below.

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

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

21. PLANTATION ASSETS *(CONTINUED)*

Notes: *(continued)*

(c) During the year ended 31 December 2010, the Group entered into agreements with Guizhou Jingping Changsheng Xinglv Forest Co., Ltd and Guizhou Changsheng Green Resource Development Co., Ltd ("Guizhou Changsheng") to purchase approximately 49,000 hectares of forests in Guizhou for a total consideration of RMB828,039,000. The Group paid RMB413,911,000 to Guizhou Changsheng as prepayment for forest acquisition. Up to 31 December 2010, Guizhou Changsheng provided forestry ownership certificates for approximately 2,000 hectares of forests to the Group. Notwithstanding the loss of forestry ownership certificates last year, the Group obtained direct confirmation from the local forest bureau in Guizhou to confirm the ownership. Therefore, the Group recognized plantation assets for approximately 2,000 hectares of forests in Guizhou with fair value less costs to sell of RMB34,000,000 as at 31 December 2010. During the year ended 31 December 2011, the Group submitted application for re-issuance of forestry ownership certificates for the 2,000 hectares of forests in Guizhou. However, the officials from the local forest bureau informed that the 2,000 hectares of forests does not belong to the Group. According to the further investigation conducted so far, the Board believes that the forestry ownership certificates for the 2,000 hectares of forests are falsified copies. The Group engaged a PRC lawyer to take legal actions against Guizhou Changsheng to recover the total payments of RMB413,911,000 (including RMB24,342,000 and RMB6,085,000 transferred from prepayment for forest acquisition to plantation assets and lease prepayments respectively in 2010, totalling RMB30,427,000) made to Guizhou Changsheng. In April 2012, the Group reported the case to the PRC police. In view of the above and the uncertainty to recover the amount from Guizhou Changsheng, the Board considered that it is appropriate to charge the plantation assets with a carrying amount of RMB34,000,000 to the changes in fair value of plantation assets less costs to sell and other reconciling items.

(d) Changes in fair value less costs to sell and other reconciling items in the consolidated income statement for the year ended 31 December 2011 included the fair value gain of RMB257,084,000 upon initial acquisition of the plantation assets; the plantation assets relating to the additional forestry ownership certificates discovered for approximately 14,000 hectares of forests in Yunnan, as disclosed in note (b) above; carrying amount of RMB2,200,000,000 of plantation assets in respect of approximately 96,000 hectares of forests in Yunnan for which no confirmation was obtained from local forest bureaus; and the carrying amount of RMB34,000,000 of plantation assets in respect of approximately 2,000 hectares of forests in Guizhou as stated in note 21(c) above.

The "Change 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 (e) 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 is not practicable if not impossible, to ascertain the completeness and accuracy of the plantation assets of the Group as of 31 December 2010.

21. PLANTATION ASSETS *(CONTINUED)*

Notes: *(continued)*

(e) The Group's plantation assets in the PRC were independently valued by CFK based on the information available to the directors pertaining to the extent and nature of the Group's plantation assets (see note (b) above). 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 rate of 13% (2010: 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 the relevant government authorities;

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

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

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

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

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

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

22. INTERESTS IN SUBSIDIARIES

	The Company	
	2011	2010
	RMB'000	RMB'000
Unlisted investments at cost	**–**	–
Amounts due from subsidiaries	**2,479,992**	–
	2,479,992	–

22. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

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

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

Name of company	Place of incorporation and operation	Paid-up capital	Attributable equity interest indirectly held by the Company	Principal activities
Forestry Resources Development Co., Ltd.* ("Kunming Ultra Big")	The PRC	USD90,000,000 (2010: USD90,000,000)	100%	Forestry management and trading of timber logs
Chengdu Yishang Forestry Resource Development Co., Ltd.* ("Chengdu Yishang")	The PRC	USD49,000,000 (2010: USD49,000,000)	100%	Forestry management and trading of timber logs
Guizhou Wosen Forestry Development Company Limited* ("Guizhou Wosen")	The PRC	USD90,000,000 (2010: USD90,000,000)	100%	Forestry management, processing, sale, and trading of timber logs
Manzhouli Yishang Forest Resource Development Co., Ltd.* ("Manzhouli Yishang")	The PRC	RMB30,000,000 (2010: RMB30,000,000)	100%	Processing, sale and trading of timber logs

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

(b) Information of Manzhouli Yishang

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

22. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

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

In particular, the Board were unable to reconcile the amount of loss for the year as reported in Manzhouli Yishang's income statement of RMB39,023,000 as included in these consolidated financial statements with that submitted to the PRC tax authority of RMB562,000.

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

Statement of financial position as at 31 December 2011

	RMB'000
Non-current assets	
Property, plant and equipment	1,169
Current assets	
Due from fellow subsidiaries	9,466
Inventories	22,550
Trade and other receivables	
– Prepayment for purchase of inventories	27,502
– Deposits and other receivables	1,590
	29,092
Cash and cash equivalents	664
Total current assets	61,772
Current liabilities	
Trade and other payables	
– Trade payables	5,489
– Other payables and accruals	3,477
– Advances from customers	518
	9,484
Current tax payable	4,671
Due to fellow subsidiaries	28,538
Due to immediate holding company	29,912
Total current liabilities	72,605
Net current liabilities	(10,833)
Net liabilities	(9,664)

22. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

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

Income statement for the year ended 31 December 2011

	RMB'000
Turnover	136,579
Cost of inventory sold	(137,862)
Other operating income	91
Write-down of inventories	(24,896)
Depreciation	(139)
Other operating expenses	(3,006)
Rental expenses	(12)
Staff costs	(1,237)
Travelling expenses	(82)
Impairment loss on other receivables	(3,800)
Loss from operations	(34,364)
Finance income	18
Finance expenses	(6)
Net finance costs	12
Loss before taxation	(34,352)
Income tax	(4,671)
Loss for the year	(39,023)

23. PREPAYMENT FOR FOREST ACQUISITION

	Note	**The Group** **2011** **RMB'000**
At 1 January		**383,484**
Additions	(a)	**26,222**
Impairment	(b)	**(383,484)**
At 31 December		**26,222**

23. PREPAYMENT FOR FOREST ACQUISITION *(CONTINUED)*

Notes:

(a) During the year ended 31 December 2011, the Group entered into agreements to purchase forests for a total consideration of RMB184,159,000 of which RMB26,222,000 was paid as prepayment for forest acquisition. The balance of RMB181,337,000 were included as capital commitment in note 36(a).

(b) During the year ended 31 December 2010, the Group entered into agreements with Guizhou Jingping Changsheng Xinglv Forest Co., Ltd. and Guizhou Changsheng Green Resource Development Co., Ltd. (collectively "Guizhou Changsheng") which are controlled by Mr. Zhou Xiaolin, the Former General Manager of Guizhou Wosen, a subsidiary of the Group, for the acquisitions of approximately 49,000 hectares of forests for a total consideration of RMB828,039,000. The Group paid an aggregate amount of RMB413,911,000 as prepayment for forest acquisition under the agreements during the year ended 31 December 2010 of which RMB24,342,000 and RMB6,085,000 were classified as plantation assets and lease prepayments respectively upon receipt of the relevant forestry ownership certificates in 2010. Since then, Guizhou Changsheng was unable to provide any forestry ownership certificates for the remaining prepayment of RMB383,484,000 to the Group. However, as detailed in note 21(c) the forestry ownership certificates provided by Guizhou Changsheng were considered to be falsified and it was unlikely that the acquisition will be completed. The directors considered that it is appropriate to make full impairment on the prepayment for forest acquisition.

As disclosed in note 2(b), on the basis that the relevant books and records were either lost or are incomplete, no representation was made by the Board as to the completeness, accuracy, existence, valuation, classification and disclosures of the prepayment for forest acquisition at 31 December 2010.

24. INVENTORIES

	The Group	
	2011	2010
	RMB'000	RMB'000
Other raw materials	**125**	–
Timber logs and lumbers	**348,010**	534,800
Less: Write-down of inventories	**(241,000)**	(120,930)
Total	**107,135**	413,870

24. INVENTORIES *(CONTINUED)*

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Cost of inventory sold	**448,170**	–
Write-down of inventories (note (ii) and (iii))	**120,070**	120,930
	568,240	120,930

Notes:

(i) As at 31 December 2011, there were inventories with a total carrying amount of RMB76,160,000 which were purchased in cash under the supervision of the former chief executive officer and executive director, Mr. Li Han Chun in 2010. According to findings of the investigation conducted by the Independent Committee, the Board understood that all these inventories were reportedly purchased through cash but there were insufficient documents to support the Group's titles and ownership.

(ii) For the inventories as at 31 December 2011, the Group together with the external professional valuer performed a physical stock take and inspection in January 2012. The write down of inventories is determined based on net realisable value with reference to the professional valuation as determined by the external professional valuer.

(iii) For the inventories as at 31 December 2010, the Group together with the external professional valuer performed a physical stock take and inspection in March 2011. The write down of inventories is determined with reference to the fair value less costs to sell as determined by the external professional valuer. In general, the external professional valuer found the logs goods were poorly organised often with different grades and sizes within the same row. In addition, the log stockpiles were placed so close together that it was impossible in some cases to walk between the stockpiles to take sample to determine the stack factors. The stock volume as stated in the valuation report was around 76% of the stock volume per the Group's books and records.

(iv) As disclose in note 2(b), 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, accuracy and ownership of the inventories at 31 December 2010. Furthermore, the directors were not able to separately verify the cost of inventory sold during the year ended 31 December 2010 and therefore this amount is not identified in the profit or loss in 2010 separately from other suspense account and changes in fair value of plantation assets less costs to sell and other reconciling items as disclosed in notes 11 and 21 to the financial statements.

25. TRADE AND OTHER RECEIVABLES

	Note	The Group 2011 RMB'000	The Group 2010 RMB'000	The Company 2011 RMB'000	The Company 2010 RMB'000
Trade and bills receivables	(a)	**142,199**	1,863	**–**	–
Less: allowance for doubtful debts	(a)	**(122,699)**	–	**–**	–
		19,500	1,863	**–**	–
Other receivables		**13,002**	2,685	**990**	1,165
Loans and receivables		**32,502**	N/A	**990**	N/A
Prepayments for purchase of inventories	(b)	**74,980**	Note (b)	**–**	N/A
Prepayment for lumbering		**18,411**	N/A	**–**	N/A
Value added tax receivables		**1,929**	N/A	**–**	N/A
Other prepayments and deposits		**9,521**	46,090	**4,024**	302
		137,343	50,638	**5,014**	1,467

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

(a) Trade and bills receivables

(i) Ageing analysis

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

	The Group 2011 RMB'000
0 – 90 days	**19,500**

Trade and bills receivable are due within 10 days from the date of goods delivery. Further details on the Group's credit policy are set out in note 6(iii).

25. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

(ii) Impairment of trade and bills receivables

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

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

	The Group
	2011
	RMB'000
At beginning of the year	–
Impairment loss recognised	**122,699**
At end of the year	**122,699**

At 31 December 2011, the Group's trade and bills receivables of RMB122,699,000 were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties or default of payments and management assessed that the receivables is not expected to be recovered. Consequently, specific allowances for doubtful debts of RMB122,699,000 were recognised.

(iii) Trade and bills receivables that are not impaired

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

	The Group
	2011
	RMB'000
Neither past due nor impaired	**19,500**

25. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(b) Prepayment for purchase of inventories

During the year ended 31 December 2011, the Group made payments of RMB171,000,000 to three entities as prepayments for the purchase of timber logs. Subsequent to the payments, the Group received logs amounting to RMB47,895,000 (including value-added tax) from the three entities. According to the purchase contracts, the three entities shall refund the balance of prepayments to the Group for which no delivery of logs are taken place upon expiry of the contracts agreed to be in June and July 2011. The Board have assessed the recoverability of these balances and decided to impair an amount of RMB90,362,000 which were considered not recoverable as at 31 December 2011. In addition, the Board also considered the recoverability of the prepayment for purchase of inventories of RMB35,200,000 brought forward from prior year, which was included in "other prepayments and deposits" in 2010 and concluded that the amount would not be recovered. Therefore, the amount of RMB35,200,000 were also impaired in the consolidated income statement.

Given the loss of some books and records, unreliability of records found and the absence of key personnel, the Board believes that it is not praticable if not impossible, 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 bills receivables ageing, credit policy and impairment assessment for the year ended 31 December 2010.

26. OTHER FINANCIAL ASSETS

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Derivative financial instruments	–	9,734

The derivative financial instruments represented the embedded derivative in the secured senior notes, whose fair values are determined by valuation technique taking into account market interest rate and the credit standing of the Group (note 32).

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2011	2010
	RMB'000	RMB'000
Debt securities, listed in Singapore	**54,676**	–
Market value of listed debt securities	**54,676**	**–**

The Group holds an aggregate principal amount of US$13,190,000 of its 10.25% Senior Notes due 2015. The details of the 10.25% Senior Notes due 2015 are set out in note 32.

28. DUE FROM/TO SUBSIDIARIES

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

As disclosed in note 2(b), 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 valuation of the amounts from subsidiaries at 31 December 2010.

29. BANK DEPOSITS WITH MATURITY OVER 3 MONTHS

At 31 December 2011, the bank deposits were denominated in United States Dollars and deposited with a bank in the PRC. The bank deposits bearing an effective interest rate of 3.8% per annum. The conversion of RMB denominated balance into foreign currencies and the remittance of such foreign-currency denominated bank balances and cash out of the PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

30. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**749,638**	2,784,673	**3,719**	664,131

30. CASH AND CASH EQUIVALENTS *(CONTINUED)*

The Group's cash and cash equivalents include cash at bank and in hand of RMB525,119,000 held in the PRC as at 31 December 2011 (2010: RMB1,120,821,000). The conversion of RMB denominated balance into foreign currencies and the remittance of such foreign-currency denominated bank balances and cash out of the PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

As disclosed in note 2(b), 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 cash and cash equivalents as at 31 December 2010, and underlying cash transactions for the year ended 31 December 2010.

31. TRADE AND OTHER PAYABLES

		The Group		The Company	
	Note	**2011 RMB'000**	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Trade payables	(a)	**5,839**	N/A	**–**	N/A
Payable for forest acquisitions	(b)	**95,201**	641,454	**–**	–
Other payables and accrued expenses		**39,475**	63,742	**24,906**	44,552
Amount due to the Chairman of the Company	(c)	**583**	162	**602**	61
Financial liabilities measured at amortised cost		**141,098**	N/A	**25,508**	N/A
Advances from customers		**12,676**	N/A	**–**	N/A
Value added tax and other taxes payable	(d)	**461,046**	380,640	**–**	N/A
		614,820	1,085,998	**25,508**	44,613

All the trade payables, payables for forest acquisitions, other payables and accrued expenses, advances from customers amount due to the Chairman of the Company and value added tax and other taxes payable are expected to be settled within one year or repayable on demand.

31. TRADE AND OTHER PAYABLES *(CONTINUED)*

(a) Trade payable

The following is an age analysis of the trade payables as at the end of the reporting period:

	The Group 2011 RMB'000
Due within 1 month or on demand	546
Due after 1 month but within 3 months	–
Due after 3 months but within 6 months	5,293
Due after 6 months but within 1 year	–
	5,839

Trade payables are due within 90 days from date of delivery.

(b) Payable for forest acquisitions

Payable for forest acquisitions represents considerations to be settled for the acquisition of forests in the PRC. Due to the lost of certain books and records, the amount of payable for forest acquisitions as at 31 December 2010 was estimated by the directors by reference to the forests held by the Group. During the year ended 31 December 2011, the Group made aggregate payments of RMB598,653,000 to settle the consideration payable brought forward from 2010 and the balance of RMB42,801,000 as at 31 December 2011 remained outstanding and included in the total amount of payable for forest acquisition as at 31 December 2011. In the absence of sufficient books and records, the directors were unable to make representation as to the completeness, existence and accuracy of the balance of payable for forest acquisitions brought forward from prior year and as at 31 December 2011.

(c) Amount due to the Chairman of the Company

As at 31 December 2010, the amount due to the Chairman of the Company represents payment of listing expense made on behalf of the Company.

(d) Value added tax and other taxes payable

During the year ended 31 December 2010, under investigation by Independent Committee, the directors has identified that the former management has not fully paid up and provided for the value added tax on the sales of timber logs in the previous years. The Group has taken proper steps to remedy this situation, by communicating with relevant tax bureau and preparing to settle the outstanding tax liabilities of the Group voluntarily.

As at the date of approval of these financial statements, the Group obtained confirmations from certain tax bureaus at county level confirming that the outstanding value added tax liabilities payable to those relevant tax bureaus have been settled.

As disclosed in note 2(b), 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 trade and other payables at 31 December 2010.

32. NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group and the Company		
	2011		
	Secured 7.75% senior notes due 2015 RMB'000	Secured 10.25% senior notes due 2015 RMB'000	Total RMB'000
At beginning of the year	**1,948,862**	**–**	**1,948,862**
Exchange adjustments	**(69,349)**	**(3,044)**	**(72,393)**
Transfer	**(1,131,075)**	**1,131,075**	**–**
Interests charged	**97,525**	**46,873**	**144,398**
Interests payable	**(92,184)**	**(45,074)**	**(137,258)**
Loss on repurchase	**23,020**	**–**	**23,020**
Repurchase	**(776,799)**	**–**	**(776,799)**
Exchange difference recognised in profit or loss	**–**	**(4,997)**	**(4,997)**
At end of the year	**–**	**1,124,833**	**1,124,833**
Repayable			
More than two years but not more than five years	**–**	**1,124,833**	**1,124,833**

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

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

Period	Redemption Price
2013	103.875%
2014	101.9375%

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

32. NON-CURRENT INTEREST-BEARING BORROWINGS *(CONTINUED)*

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

The 7.75% Senior Notes due 2015 contain a liability component and the above early redemption options:

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

The interest charged for the period is calculated by applying an effective interest rate of approximately 8.24% per annum to the liability component of the 7.75% Senior Notes due 2015, since they were issued.

(ii) Early redemption options are regarded as embedded derivative not closely related to the host contract. The fair value of the above early redemption options is disclosed in note 26.

On 15 August 2011, the Company repurchased at a consideration of US$123,747,000 (equivalent to RMB791,608,000), the 7.75% Senior Notes due 2015 with a principal amount of US$120,000,000 plus accrued and unpaid interest and consent payment through a tender offer ("Offer"). The carrying amount of the 7.75% Senior Notes due 2015 plus accured and unpaid interest was US$120,190,000 (equivalent to RMB768,588,000) at the date of repurchase and the consent payment incurred was US$1,474,000 (equivalents to RMB9,428,000). A loss on repurchase of US$3,557,000 (equivalent to RMB23,020,000) was recognised in the income statement.

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

The Senior Notes were secured by the shares of the Company's subsidiaries incorporated in Hong Kong and BVI, which act as the intermediate holding companies for all the Group's PRC subsidiaries, and were subject to the fulfilment of certain financial and non-financial covenants, as commonly found in lending arrangements in high yield senior notes. If the Group 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 2011.

33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

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

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

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

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

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

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

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

	2011		2010	
	Weighted average exercise price HK$	**Number of options '000**	Weighted average exercise price HK$	Number of options '000
Outstanding at the beginning of the year	**3.23**	**42,750**	–	–
Granted during the year	**–**	**–**	3.23	42,750
Forfeited during the year	**3.23**	**(34,250)**	–	–
Outstanding at the end of the year	**3.23**	**8,500**	3.23	42,750
Exercisable at the end of the year	**–**	**–**	–	–

The options outstanding at 31 December 2011 had an exercise price of HK$3.23 (2010: HK$3.23) and a weighted average remaining contractual life of approximately 8.7 years (2010: 9.7 years). The charge for the equity-settled share-based transaction during the year ended 31 December 2011 is RMB8,361,000 (2010: RMB10,099,000).

c) Fair value of share options and assumptions

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

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

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

34. CAPITAL, RESERVES AND DIVIDENDS

a) Movements in components of equity

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

The Company

	Note	Share capital RMB'000 (note (c))	Share premium RMB'000 (note (e)(i))	Capital reserve RMB'000 (note (e)(iii))	Exchange reserve RMB'000 (note (e)(iv))	Accumulated losses RMB'000	Total equity RMB'000
At 1 January 2010		20,797	1,875,860	88,557	(9,619)	(112,243)	1,863,352
Loss for the year		–	–	–	–	(59,569)	(59,569)
Exchange differences on translation of financial statements		–	–	–	(58,964)	–	(58,964)
Total other comprehensive loss		–	–	–	(58,964)	–	(58,964)
Total comprehensive loss for the year		–	–	–	(58,964)	(59,569)	(118,533)
Transaction with owners							
Dividends approved and paid in respect of the previous year	34(b)	–	(157,911)	–	–	–	(157,911)
Equity-settled share-based transactions	33	–	–	10,099	–	–	10,099
		–	(157,911)	10,099	–	–	(147,812)
At 31 December 2010		20,797	1,717,949	98,656	(68,583)	(171,812)	1,597,007
At 1 January 2011		20,797	1,717,949	98,656	(68,583)	(171,812)	1,597,007
Loss for the year		–	–	–	–	(211,081)	(211,081)
Exchange differences on translation of financial statements		–	–	–	(56,953)	–	(56,953)
Total other comprehensive loss		–	–	–	(56,953)	–	(56,953)
Total comprehensive loss for the year		–	–	–	(56,953)	(211,081)	(268,034)
Transaction with owners							
Equity-settled share-based transactions	33	–	–	8,361	–	–	8,361
Transfer to accumulated losses upon forfeiture of share options		–	–	(10,678)	–	10,678	–
		–	–	(2,317)	–	10,678	8,361
At 31 December 2011		20,797	1,717,949	96,339	(125,536)	(372,215)	1,337,334

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

b) Dividends

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

	2011 RMB'000	2010 RMB'000
Special dividend proposed after the end of the reporting period of HK$2.54 cents per ordinary share (2010: Nil)	**63,509**	–

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

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$5.86 cents (RMB5.16 cents) per ordinary share	**–**	157,911

c) Authorised and issued share capital

	2011			2010		
	Number of ordinary shares '000	**Amount USD'000**	**RMB equivalent RMB'000**	Number of ordinary shares '000	Amount USD'000	RMB equivalent RMB'000
Authorised:						
Ordinary shares of USD0.001 each at 1 January and 31 December	**100,000,000**	**100,000**	**679,640**	100,000,000	100,000	679,640
Ordinary shares, issued and fully paid:						
Shares of USD0.001 each at 1 January and 31 December	**3,060,452**	**3,060**	**20,797**	3,060,452	3,060	20,797

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

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

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

Exercise period	Exercise price	**2011 Number**	2010 Number
7 September 2011 to 6 September 2020	HK$3.23	**2,833,333**	14,248,575
7 September 2012 to 6 September 2020	HK$3.23	**2,833,333**	14,248,575
7 September 2013 to 6 September 2020	HK$3.23	**2,833,334**	14,252,850
		8,500,000	42,750,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 33 to the financial statements.

e) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory surplus reserve

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

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

(iii) Capital reserve

Capital reserve represents the portion of the grant date fair value of unexercised share options granted to director and employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 4(r)(ii), and the difference between the fair value of shares transferred to and the present value of consideration payable by a ex-director.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC. The reserve is dealt with in accordance with the accounting policies set out in note 4(r).

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

f) Distributable reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to owners of the Company, including the share premium was RMB1,316,537,000 (2010: RMB1,576,210,000).

As disclosed in note 2(b), 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 distributable reserves as at 31 December 2010.

g) Capital management

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

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

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

During the year ended 31 December 2011, the Group's strategy was to maintain the net debt to equity ratio as low as feasible.

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

	The Group
	2011 **RMB'000**
Non-current liabilities	
Interest-bearing borrowings	**1,124,833**
Total debt	**1,124,833**
Less:	
Cash and cash equivalents	**(749,638)**
Bank deposits with maturity over 3 months	**(59,858)**
Net debt	**315,337**
Total equity	**2,559,573**
Net debt to equity ratio	**12.3%**

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

g) Capital management *(continued)*

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

The Group is subject to externally imposed capital requirements under lending arrangements in interest-bearing borrowings as disclosed in note 32.

35. MATERIAL RELATED PARTY TRANSACTIONS

a) Key management personnel remuneration

Remuneration of key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 13 and certain of the highest paid employees as disclosed in note 14, is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	**11,468**	11,944
Retirement benefits	**19**	95
Equity compensation benefits	**2,927**	4,725
	14,414	16,764

b) Financing arrangements

	The Group As at 31 December	
	2011	2010
	RMB'000	RMB'000
Advance to directors (Note)	**583**	261
Advance from directors (Note)	**–**	285

Note:

The advance to a director is unsecured, interest-free and repayable on demand, which is include in "trade and other receivables" (note 25).

The advances from directors are unsecured, interest-free and has no fixed repayment term, which are include in "trade and other payables" (note 31).

35. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

c) Forest acquisition

	The Group As at 31 December	
	2011 **RMB'000**	2010 RMB'000
Prepayment to Guizhou Changsheng for forest acquisition (Note)	**–**	383,484

Note:

During the year ended 31 December 2010 and in the ordinary course of business, the Group paid an aggregate amount of RMB383,484,000 to Guizhou Jingping Changsheng Xinglv Forest Co., Ltd. and Guizhou Changsheng Green Resource Development Co., Ltd which are controlled by Mr. Zhou Xiaolin, the Former General Manager of Guizhou Wosen, a subsidiary of the Group. The prepayment is unsecured, interest-free and repayable on demand, which is included in "prepayment for forest acquisition" (note 23).

As disclosed in note 2(b), 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 disclosure of related party transactions for the year ended 31 December 2010 or as at 31 December 2010.

d) Other related party transactions

	Note	**2011** **RMB'000**	2010 RMB'000
Rental expenses paid to a related party	(i)	**120**	–
Rental expenses paid to a related company	(ii)	**792**	–

Notes:

(i) The Group paid rental expenses to Mr. Xiao Hui Bo, a senior management of the Group, who is able to exercise significant influence over the Group in making financial and operating policy decision.

(ii) The Group paid rental expenses to a related company namely Beijing Century Wall Culture & Arts Co., Ltd.. The wife of Mr. Li Kwok Cheong, the Chairman of board of directors, is an authorised representative of and a shareholder holding 51% equity interest in Beijing Century Wall Culture & Arts Co., Ltd.

36. COMMITMENTS

a) Capital commitments outstanding at 31 December 2011 not provided for in the financial statement are as follows:

	The Group
	2011
	RMB'000
Contracted but not provided for:	
– acquisition of forests	**157,937**

The above capital commitments represented outstanding commitments in respect of contracts signed in 2011 and did not include outstanding commitments, if any, for contracts signed in previous years.

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	The Group
	2011
	RMB'000
Within 1 year	**8,237**
After 1 year but within 5 years	**10,781**
After 5 years	**1,044**
	20,062

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

37. PLEDGE OF ASSETS

As disclosed in note 32 to the financial statements, the Company has pledged its shares held in certain subsidiaries (the "Subsidiaries"), having a total carrying amount of approximately RMB2,479,992,000 to secure the interest-bearing borrowings of RMB1,142,984,000. The Subsidiaries acted as investment holding companies holding all the shares of other subsidiaries of the Group in the PRC.

38. EVENTS AFTER THE END OF REPORTING PERIOD

(a) Acquisition of subsidiaries

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

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

* If the completion cannot take place before 31 March 2012, the payment date will be deferred to a date mutually agreed between the Seller and Creation Power. The prepayment shall be refunded if the acquisition is not completed or the Agreement is terminated.

38. EVENTS AFTER THE END OF REPORTING PERIOD *(CONTINUED)*

(a) Acquisition of subsidiaries *(continued)*

Identifiable assets and liabilities assumed

	Acquiree's carrying amount before combination RMB'000	Fair value adjustment RMB'000	Provisional fair value RMB'000
Non-current assets			
Property, plant and equipment	167,945	(12,082)	155,863
Lease prepayments	2,650		2,650
Deferred tax assets	–	3,021	3,021
Current assets			
Work in progress	9,088		9,088
Trade and other receivables			
– Trade receivables	158		158
– Prepayments	1,745		1,745
	1,903		1,903
Tax recoverable	1,795		1,795
Cash and cash equivalents	8,688		8,688
Current liabilities			
Trade and other payables			
– Trade payables	(228)*		(228)*
– Other payables and accruals	(1,281)*		(1,281)*
– Advances from customers	(6,269)		(6,269)
	(7,778)		(7,778)
Total net assets identified	184,291	(9,061)	175,230

Buildrich Group is in the process of closing its books, therefore, the financial information of Buildrich Group as at the date of completion is not available. The financial information as disclosed above represented the financial information of Buildrich Group as of 29 February 2012. In the opinion of the directors, there is no material change in the financial position of Buildrich Group between 29 February 2012 and 27 April 2012, the date of completion.

The receivables acquired in this transaction with a fair value of RMB158,000 had gross contractual amounts of RMB158,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RMBNil.

* Net of a total amount of RMB29,821,000 borne by the former shareholders.

38. EVENTS AFTER THE END OF REPORTING PERIOD *(CONTINUED)*

(a) Acquisition of subsidiaries *(continued)*

As at the date of approval of these financial statements, the Group has not finalised the fair value assessment for the acquiree's identifiable assets, liabilities and contingent liabilities as at the date of acquisition. The relevant fair value of net assets acquired stated above is arrived at on a provisional basis and awaiting for the finalisation of identification of and fair values of identifiable assets and liabilities of Buildrich Group. Hence, the provisional gain on a bargain purchase may be subject to significant changes in the future period when these valuations have been finalized.

Provisional gain on a bargain purchase	RMB'000
Consideration transferred	112,000
Plus: non-controlling interests (30%)	52,569
Less: provisional fair value of identifiable net assets acquired	(175,230)
Provisional gain on a bargain purchase	(10,661)

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

Net cach outflow on acquisition of the subsidiaries:

	RMB'000
Cash consideration paid	112,000
Cash and cash equivalents in subsidiaries acquired	(8,688)
Net cash outflow on acquisition of the subsidiaries	103,312

Non-controlling interests

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

The Group incurred acquisition-related costs of approximately RMB279,000 relating to legal and professional fees and other charges which have been excluded from the cost of acquisition.

38. EVENTS AFTER THE END OF REPORTING PERIOD *(CONTINUED)*

(a) Acquisition of subsidiaries *(continued)*

Had the acquisition been completed on 1 January 2011, the Group's total revenue would have been approximately RMB394,117,000 and loss would have been approximately RMB4,190,684,000.

The above pro forma information on the Group's revenue and result is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

(b) On 21 December 2011, Creation Power entered into a loan agreement ("Loan Agreement") with Millions In Investment Limited ("Millions"), the immediate holding company of Triple Success. Pursuant to the Loan Agreement, Creation Power lent RMB11,200,000 to Millions for a period of one year from 15 January 2012. The loan bears interest at 6.65% per annum and is guaranteed by the Vendor and the former shareholder of Buildrich.

(c) On 9 March 2012, the Company paid a special dividend of HK2.54 cent per ordinary share, totalling HK$77,677,000 in respect of the year ended 31 December 2011.

(d) On 7 March 2012, Chengdu Yishang, a wholly-owned subsidiary entered into an agreement to borrow a bank loan of RMB30,000,000 from a PRC bank for a period of two years from 7 March 2012 to 6 March 2014. The loan bears interest at 7.216% per annum and is secured by a guarantee from a subsidiary and certain forestry ownership certificates for 4,254 hectares of plantation assets in Sichuan with total carrying amount of approximately RMB59,594,000 as at 31 December 2011. The loan was drawn down on 16 March 2012.

39. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2011, the directors consider the immediate and ultimate parent of the Group to be Kingfly Capital Limited, which is incorporated in the British Virgin Islands and controlled by the Chairman of the Company, Mr. Li Kwok Cheong. This entity does not produce financial statements available for public use.

(Expressed in Renminbi in thousand)

	2011 RMB'000	2010 RMB'000 (As reported)	2009 RMB'000 (As reported)	2008 RMB'000 (As reported)	2007 RMB'000 (As reported)
Operating results					
Turnover	**392,271**	1,064,025	793,693	544,948	160,318
Result from operating activities	**(3,966,921)**	(1,576,535)	589,522	5,884,148	783,555
Suspense account	**–**	(1,116,400)	–	–	–
Net finance (costs)/income	**(161,543)**	(18,885)	(77,892)	(2,373)	174
(Loss)/profit before taxation	**(4,128,464)**	(2,711,820)	511,630	5,881,775	783,729
Income tax expense	**(62,193)**	–	–	–	–
(Loss)/profit for the year	**(4,190,657)**	(2,711,820)	511,630	5,881,775	783,729
Attributable to:					
Equity shareholders of the Company	**(4,190,657)**	(2,711,820)	511,630	5,881,775	783,729
Assets and liabilities					
Non-current assets	**3,243,679**	6,492,140	8,007,226	7,925,777	1,370,111
Net current assets/(liabilities)	**440,727**	2,172,917	1,587,233	(169,374)	20,436
Total assets less current liabilities	**3,684,406**	8,665,057	9,594,459	7,756,403	1,390,547
Non-current liabilities	**(1,124,833)**	(1,948,862)	–	(321,053)	–
Net assets	**2,559,573**	6,716,195	9,594,459	7,435,350	1,390,547
Share capital	**20,797**	20,797	20,797	232	10,000
Reserves	**2,538,776**	6,695,398	9,573,662	7,435,118	1,380,547
Total equity attributable to owners of the Company	**2,559,573**	6,716,195	9,594,459	7,435,350	1,390,547
(Loss)/earnings per share					
Basic and diluted (RMB)	**(1.37)**	(0.89)	0.22	2.61	0.35

FIVE-YEAR SUMMARY

(Expressed in Renminbi in thousand)

Notes:

(i) 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 became the holding of the Group on 19 March 2008 through the Reorganisation.

The Group resulting from the Reorganisation is regarded as a continuing group. Accordingly, the consolidated financial statements have been prepared on the basis that the Company has been treated as the holding company of the Group since 1 January 2006, rather than from 19 March 2008. Accordingly, the consolidated results of the Group for the five years ended 31 December 2010 have been prepared as if the group structure immediately after the Reorganisation had been in existence since 1 January 2006. This financial summary includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2006. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.

(ii) As disclosed in note 2 to the financial statements of this annual report, 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. Accordingly, in the interest of the Company, its shareholders and senior note 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 of Hong Kong and the senior notes on the Singapore Exchange Securities Trading Limited, respectively.

An independent board committee ("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 matters concerned according to an action plan approved by the board of Directors.

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

As disclosed in further detail in note 2 to the financial statements of this annual report, the investigations found that the accounting and related records of the Group had been extensively falsified for the year ended 31 December 2010 and the directors were unable to locate certain books and records of the Group.

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 considers the financial statements issued in previous years may be incorrect and misleading.

Given the questions over the reliability of the Group's accounting and other records, the Board believes that, as at the date of the report, it is not practicable if not impossible, to ascertain the correct revenue and profit or loss (and the resultant assets and liabilities) for prior years for inclusion in the annual report of the Group.

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2011.

BOOK CLOSURE

In order to determine the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Wednesday, 13 June 2012 to Friday, 15 June 2012, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to attend and vote at the AGM is Thursday, 14 June 2012. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on Friday, 15 June 2012, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 12 June 2012.

AGM

The AGM of the Company will be held in Beijing on Friday, 15 June 2012. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT

This annual results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.chinaforestryholding.com.

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

Hong Kong, 27 April 2012

As at the date of this announcement, the executive directors of the Company are Mr. Li Kwok Cheong 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 and Ms. Hsu Wai Man, Helen.