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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)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

INTERIM RESULTS

The Board of Directors (the “Board”) of China Forestry Holdings Co., Ltd. (the “Company”) presents the unaudited consolidated interim results of the Company and its subsidiaries (the “Group” or “China Forestry”) for the six months ended 30 June 2012 together with the comparative figures.

CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2012

	Note	Six months ended 30 June	
		2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Turnover	3	37,044	257,929
Cost of sales		(34,719)	(256,750)
Other operating income	5	13,675	30
Amortisation of insurance premium		(48)	(998)
Amortisation of lease prepayments		(4,641)	–
Consultancy fees		(9,796)	(4,743)
Depreciation		(5,636)	(1,970)
Foreign exchange loss		(123)	(23,230)
Other operating expenses		(21,329)	(14,969)
Rental expenses of properties		(4,328)	(2,868)
Staff costs		(19,928)	(7,658)
Travelling expenses		(3,072)	(3,207)
Changes in fair value of plantation assets less costs to sell	10	1,200	–
Provisional gain on a bargain purchase of subsidiaries		2,970	–
Loss from operations		(48,731)	(58,434)
Finance income		7,054	8,011
Finance expenses		(61,933)	(79,531)
Net finance costs	6(a)	(54,879)	(71,520)
Loss before taxation	6	(103,610)	(129,954)
Income tax	7	–	–
Loss for the period		(103,610)	(129,954)
Attributable to:			
Owners of the Company		(102,733)	(129,954)
Non-controlling interests		(877)	–
Loss for the period		(103,610)	(129,954)
Loss per share (RMB)			
Basic and diluted	9	(0.03)	(0.04)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss for the period	<u>(103,610)</u>	<u>(129,954)</u>
Other comprehensive income for the period		
Exchange differences on translation of financial statements of group entities outside of the PRC	<u>4,932</u>	<u>14,525</u>
Total other comprehensive income for the period	<u>4,932</u>	<u>14,525</u>
Total comprehensive loss for the period	<u>(98,678)</u>	<u>(115,429)</u>
Attributable to:		
Owners of the Company	(97,801)	(115,429)
Non-controlling interests	<u>(877)</u>	<u>—</u>
Total comprehensive loss for the period	<u>(98,678)</u>	<u>(115,429)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2012

	<i>Note</i>	As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment		156,185	21,674
Lease prepayments		270,849	254,910
Plantation assets	10	2,898,000	2,898,000
Prepayment for forest acquisition		51,288	26,222
Prepayment for purchase of leasehold land		42,873	42,873
Deferred tax assets		3,021	–
Total non-current assets		<u>3,422,216</u>	<u>3,243,679</u>
Current assets			
Inventories		144,850	107,135
Trade and other receivables	11	106,738	137,343
Lease prepayments		9,573	9,019
Financial assets at fair value through profit or loss		59,977	54,676
Bank deposits with maturity over 3 months		–	59,858
Cash and cash equivalents		632,452	749,638
Total current assets		<u>953,590</u>	<u>1,117,669</u>
Current liabilities			
Trade and other payables	12	(665,261)	(614,820)
Current tax payable		(62,122)	(62,122)
Interest-bearing borrowings		(80,000)	–
Total current liabilities		<u>(807,383)</u>	<u>(676,942)</u>
Net current assets		<u>146,207</u>	<u>440,727</u>
Total assets less current liabilities		<u>3,568,423</u>	<u>3,684,406</u>
Non-current liabilities			
Interest-bearing borrowings		(1,119,924)	(1,124,833)
Total non-current liabilities		<u>(1,119,924)</u>	<u>(1,124,833)</u>
NET ASSETS		<u>2,448,499</u>	<u>2,559,573</u>
CAPITAL AND RESERVES			
Share capital		20,797	20,797
Reserves		2,379,306	2,538,776
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>2,400,103</u>	<u>2,559,573</u>
NON-CONTROLLING INTERESTS		48,396	–
TOTAL EQUITY		<u>2,448,499</u>	<u>2,559,573</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL REPORT

for the six months ended 30 June 2012

1 BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34, Interim financial reporting, issued by the International Accounting Standards Board (“IASB”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the adoption of new and revised International Financial Reporting Standards (“IFRSs”) that are expected to be reflected in the 2012 annual financial statements. Details of the new and revised IFRSs are set out in note 2.

This unaudited interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs. The interim financial report is unaudited, but has been reviewed by the Company’s Audit Committee.

This unaudited interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2011. The financial information relating to the financial year ended 31 December 2011 that is included in this unaudited interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2011 are available from the Company’s registered office. The auditors have expressed a disclaimer of opinion on those financial statements in their report dated 27 April 2012.

2 NEW AND REVISED IFRSs

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

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

3 TURNOVER

The principal activities of the Group are the forestry management, trading of timber logs and lumbers and wood processing and construction in the People's Republic of China (the "PRC"). Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts and service income from provision of wood processing and construction services.

	Six months ended 30 June	
	2012 <i>RMB'000</i> (unaudited)	2011 <i>RMB'000</i> (unaudited)
Sales of logs from harvesting activities	18,758	–
Sales of logs and lumbers from trading activities	13,267	257,929
Revenue from provision of wood processing and construction services	5,019	–
	<u>37,044</u>	<u>257,929</u>

4 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 three reportable segments, no operating segment has been aggregated to form the following reportable segments:

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

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

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

Segment revenue and results

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

For the six months ended 30 June 2012 (unaudited)

	Forestry management <i>RMB'000</i>	Trading operation <i>RMB'000</i>	Wood processing and construction <i>RMB'000</i>	Total <i>RMB'000</i>
SEGMENT REVENUE				
Revenue from external customers	18,758	13,267	5,019	37,044
Inter-segment revenue	—	2,625	—	2,625
Reportable segment revenue	<u>18,758</u>	<u>15,892</u>	<u>5,019</u>	<u>39,669</u>
Segment results	<u>(15,655)</u>	<u>7,091</u>	<u>(89)</u>	(8,653)
Unallocated finance income				5,865
Unallocated finance expenses				(61,722)
Unallocated other operating income				363
Unallocated corporate expenses				(31,313)
Fair value loss on financial assets at fair value through profit or loss				<u>(8,150)</u>
Loss before taxation				<u>(103,610)</u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in the annual financial statements for the year ended 31 December 2011. Segment loss represents the loss from each segment without allocation of unallocated finance income, unallocated interest expenses, unallocated other operating income, unallocated corporate expenses, and fair value loss on financial assets at fair value through profit or loss. This is the measure reported to CODM of the Company for the purposes of resources allocation and performance assessment.

Segment assets and liabilities

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

Segment assets

	As at 30 June 2012 RMB'000 (unaudited)
Assets	
Forestry management	3,739,016
Trading operation	258,454
Wood processing and construction	<u>208,759</u>
Total segment assets	4,206,229
Financial assets at fair value through profit or loss	59,977
Deferred tax assets	3,021
Unallocated corporate assets	<u>106,579</u>
Consolidated assets	<u><u>4,375,806</u></u>

Segment liabilities

	As at 30 June 2012 RMB'000 (unaudited)
Liabilities	
Forestry management	552,202
Trading operation	16,592
Wood processing and construction	<u>17,476</u>
Total segment liabilities	586,270
Interest-bearing borrowings	1,199,924
Current tax payable	62,122
Unallocated corporate liabilities	<u>78,991</u>
Consolidated liabilities	<u><u>1,927,307</u></u>

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

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 (unaudited)

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

	Six months ended 30 June 2012 RMB'000 (unaudited)
Customer A – revenue from sales of timber logs and lumbers from forestry management	16,029
Customer B – revenue from sales of timber logs and lumbers from trading operation	4,797
Customer C – revenue from wood processing and construction	<u>4,289</u>

For the six months ended 30 June 2011 (unaudited)

The directors consider that the Group operates in a single business and geographical segment as the revenue and loss are derived entirely from the sales of timber logs in the PRC. Accordingly, no segmental analysis has been presented for the six months ended 30 June 2011.

5 OTHER OPERATING INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Commission income	345	–
Reversal of impairment loss on trade receivables	5,750	–
Reversal of impairment loss on prepayment for purchase of inventories	3,365	–
Reversal of impairment loss on other receivables	3,000	–
Government grants	54	9
Others	<u>1,161</u>	<u>21</u>
	<u>13,675</u>	<u>30</u>

6 LOSS BEFORE TAXATION

a) Net finance costs

	Six months ended 30 June	
	2012 <i>RMB'000</i> (unaudited)	2011 <i>RMB'000</i> (unaudited)
Finance income		
Interest income earned from deposits with banks	<u>1,474</u>	<u>5,119</u>
Total interest income on financial assets not at fair value through profit or loss	1,474	5,119
Interest income from financial assets at fair value through profit or loss	5,580	–
Change in fair value of derivative financial instruments	<u>–</u>	<u>2,892</u>
	<u>7,054</u>	<u>8,011</u>
Finance expenses		
Interest on borrowings wholly repayable within five years		
– bank loans	(820)	–
– senior notes	<u>(60,861)</u>	<u>(79,488)</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	(61,681)	(79,488)
Others	<u>(252)</u>	<u>(43)</u>
	<u>(61,933)</u>	<u>(79,531)</u>
Net finance costs	<u>(54,879)</u>	<u>(71,520)</u>

b) Other items

	Six months ended 30 June	
	2012 <i>RMB'000</i> (unaudited)	2011 <i>RMB'000</i> (unaudited)
Cost of inventories sold	30,857	256,750
Fair value loss on financial assets at fair value through profit or loss	<u>8,150</u>	<u>–</u>

7 INCOME TAX

- (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 six months ended 30 June 2012 and 2011.
- (c) No provision for PRC income tax is required for the six months ended 30 June 2012 and 2011 as the Group did not have any assessable profits subject to PRC income tax. Under the PRC tax law, the Corporate Income Tax rate of the PRC was 25% for the six months ended 30 June 2012 (six months ended 30 June 2011: 25%). Pursuant to section 27 of the Corporate Income Tax Law of the PRC (“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.

8 DIVIDENDS

- (a) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2012	2011
	RMB’000	RMB’000
Special dividend in respect of the previous financial year, approved and paid during the period, of HK2.54 cent (RMB2.06 cent) per ordinary share	<u><u>63,124</u></u>	<u><u>–</u></u>

- (b) The Board does not recommend the payment of dividends attributable to the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

9 LOSS PER SHARE

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
Loss attributable to owners of the Company (RMB’000)	<u><u>102,733</u></u>	<u><u>129,954</u></u>
Number of ordinary shares in issue (thousand shares)	<u><u>3,060,452</u></u>	<u><u>3,060,452</u></u>
Basic loss per share (RMB)	<u><u>(0.03)</u></u>	<u><u>(0.04)</u></u>

The diluted loss per share for the six months ended 30 June 2012 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 period.

The diluted loss per share for the six months ended 30 June 2011 is the same as the basic loss per share as the potential ordinary shares are anti-dilutive.

10 PLANTATION ASSETS

	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
At 1 January 2012/1 January 2011	2,898,000	5,747,000
Increase due to purchases	–	300,000
Changes in fair value of plantation assets less costs to sell and other reconciling items	1,200	(3,149,000)
Harvested logs transferred to inventories	(1,200)	–
	<u>2,898,000</u>	<u>2,898,000</u>
At 30 June 2012/31 December 2011	<u>2,898,000</u>	<u>2,898,000</u>

11 TRADE AND OTHER RECEIVABLES

The following is an aging analysis of trade and bills receivables (net of allowance for doubtful debts) based on the date of recognition of sales as of the end of the reporting period:

	As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
0 – 90 days	16,511	19,500
91 – 180 days	408	–
	<u>16,919</u>	<u>19,500</u>

Trade and bills receivable are due within 30 days from the date of goods delivery.

12 TRADE AND OTHER PAYABLES

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

	As at 30 June 2012 <i>RMB'000</i> (unaudited)	As at 31 December 2011 <i>RMB'000</i> (audited)
Within 1 month or on demand	2,161	546
After 1 month but within 3 months	77	–
After 3 months but within 6 months	36	5,293
After 6 months but within 1 year	5,518	–
	<u>7,792</u>	<u>5,839</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2012, China Forestry continued to direct its efforts to resuming its business operations, rebuilding the foundations of the Company and to strengthening its internal controls for the sake of sustainable future growth. Both the independent investigation for the period from 2006 to 2010 in relation to irregularities and the Internal Control Review as instructed by the Independent Board Committee of the Company were completed in April this year.

During the six months ended 30 June 2012 (the “Current Period”), China’s economic growth slowed remarkably as a result of increased global economic instability. The latest report issued by the National Bureau of Statistics shows that China’s GDP grew by 7.8% in the first half of this year, with second quarter growth falling to 7.6% year-on-year, revealing the slowest pace of growth since the first quarter of 2009 at the height of the global financial crisis.

Given the challenging economic environment during the Current Period, the Group, despite gradually resuming its business operations, faced a slow recovery in demand for its products. The Group recorded turnover of RMB37.0 million, representing a decrease of 85.6% over the same period in 2011. Losses attributable to owners of the Company amounted to RMB102.7 million as compared to a loss of RMB129.9 million for the same period in 2011. The loss was mainly due to a reduced level of activities in harvesting and trading, finance cost and increased operational expenses, including expenses related to the acquisition of Manzhouli Triple Success Co. Ltd. (“Triple Success”) earlier this year and its staff costs.

Harvesting activities are making a slow recovery. The Company continued its efforts to bring its harvesting activities back on track through its determined work in cooperation with governments and through on-site research. Meanwhile, the Company’s downstream business developed smoothly and recorded steady growth. Revenue generated in the first half of the year was mainly derived from the Group’s timber log trading business and harvesting activities in Sichuan province. During the Current Period, the Company harvested and traded a total of 43,000 cubic meters of timber logs, generating RMB37.0 million in revenue.

In April 2012, the Company acquired Triple Success, one of the largest high-end wood processing plants in Asia, located in Manzhouli in the Inner Mongolia Autonomous Region. This acquisition represents a part of the Company’s strategy to strive for wider margins in the forestry value chain. In the first half of 2012, the Company’s primary focus for Triple Success was to conduct training for its management team, to improve its production activity and efficiency and to develop an expansion plan to turn Triple Success into a bulk processor of high-end wood products so as to create strong synergies with the Company’s established log trading business which will be benefited for the rich forestry resources from Russia.

The Company also engaged in the strategic expansion into the wood-frame house manufacturing and construction business, which is expected to bring considerable revenue to the Company. During the Current Period, the Company secured a wood-frame house project in Tangshan, Hebei with a total construction area of approximately 13,000 square meters. The wood-frame house project is currently under construction, and is expected to be completed and delivered in the second half of 2012.

During the Current Period, the Company entered the saplings development business, being one aspect of the under-forest economy, to give the Company a new competitive edge. In August, the State Council issued “Opinions regarding accelerating the development of the under-forest economy” (“Opinions”). The Opinions aim to strengthen policy support for the under-forest industry through related tax policies and loan incentives.

As of 30 June 2012, the Group had cash and bank balances of approximately RMB632.5 million, of which approximately RMB173.72 million and USD67.62 million and JPY86.04 million were maintained in the PRC; and approximately RMB45.75 million and USD4.52 million were maintained in Hong Kong (31 December 2011: RMB749.6 million).

Prospects

China’s steady economic development has been the principal driving force of China’s forestry industry. As demand for wood and wood products is expected to remain strong, the Company remains optimistic about the sustained demand for timber logs. Therefore, the Company is fully prepared to thrive on this opportunity for future growth.

With its enhanced and ongoing internal controls and financing facilities, the Company will continue to rebuild relationships with local governments and relevant parties in order to look for appropriate forests for acquisition and to resume harvesting. The Company will continue to boost its harvesting activities with the aim of gradually resuming normal harvesting levels. Furthermore, as its trading business grows and is becoming increasingly stable, the Company will continue to enlarge the scale of its trading business to achieve better performance in the second half of this year.

Since the acquisition of Triple Success, the Group has been actively engaged in the reconstruction, training and enhancement in productivity of Triple Success. The expansion plan for Triple Success is currently in progress. We also firmly believe that the contribution from Triple Success will provide steady income for the Company.

To speed up its expansion into the downstream wood processing sector, the Company launched a wood-frame house manufacturing and construction business this year. With the booming tourism industry and growing awareness of environmental protection in the PRC, wood-frame houses have promising prospects as they boast comfort and functionality and can be built into various types of dwellings. As at the date of this announcement, apart from the Hebei Tangshan project, the Company expects several orders for wood-frame house projects in other provinces, and is fully confident that this new business will be a beneficial undertaking. To seek more opportunities and enhance profitability, the Company is also exploring the saplings development business with the local government and authorities.

The Company will step up its efforts to resume trading as soon as possible and is confident that its operations is on the track of stable recovery to its normal levels in 2012.

Financial Review

Revenue

During the Current Period, the Group recorded total revenue of RMB37.0 million, representing a decrease of 85.6% over the same period in 2011. The revenue were mainly derived from harvesting activities in Sichuan province and trading of timber logs in the northeastern China. The decrease is mainly due to the slow recovery of harvesting activities in Sichuan and Yunnan provinces and the decrease of demand and price of log in the northeastern China.

Staff cost

Staff cost increased to RMB19.9 million for the period ended 30 June 2012 from RMB7.7 million over the same period last year mainly due to the increase in number of staff by 335 employee from newly acquired subsidiary, Manzhouli Triple Success Co., Ltd., and the forfeiture of unvested share options of former senior management last year amounted to RMB6 million.

Consultancy fees

Consultancy fees for the period increased to RMB9.8 million for the period ended 30 June 2012 from RMB4.7 million over the same period last year mainly due to the increase in professional fees to conduct independent investigation and internal control review during the Current Period.

Foreign exchange loss/gain

The foreign exchange loss decreased to RMB123,000 for the period ended 30 June 2012 from RMB23.2 million over the same period last year mainly due to stable exchange rate between RMB and USD during the current period, and the decrease in US Dollar denominated deposits, as part of the US Dollar denominated deposits has been converted to Renminbi deposits.

Other operating expenses

The increase in other operating expenses by 42.5% to RMB21.3 million for the period ended 30 June 2012 from RMB15.0 million over the same period last year was mainly due to the change of fair value on the 10.25% Senior Notes with an aggregate principal amount of US\$17,190,000.

Net finance costs

Net finance costs for the period ended 30 June 2012 of RMB54.9 million mainly arose from the interest expenses of Senior Notes with an outstanding amount of USD180 million bearing interest at 10.25% per annum.

Income tax expenses

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

Loss for the period

Based on the foregoing reasons, our loss attributable to the owners of the Company amounted to approximately RMB102.7 million for the Current Period.

Liquidity and Financial Resources

As of 30 June 2012, the Group had cash and bank balances of approximately RMB632.5 million, of which approximately RMB173.72 million and USD67.62 million and JPY86.04 million were maintained in the PRC; and approximately RMB45.75 million and USD4.52 million were maintained in Hong Kong (31 December 2011: RMB749.6 million).

Contingent Liabilities

As at 30 June 2012, the Group believes it did not have any material contingent liabilities or guarantees (31 December 2011: Nil).

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 30 June 2012.

At 30 June 2012, the bank loans amounted to RMB80 million bear interest ranged from 6.31% to 8.60% per annum and are 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, repayable within one year.

Financial Instruments

The Group did not hold any financial instruments for hedging purposes during the Current Period.

Foreign Exchange Exposure

The Group's businesses are located in the PRC and its operating transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, Hong Kong dollars and US dollars. Since the Renminbi is not freely convertible, there is a risk that the PRC government may take actions affecting exchange rates which may have a material adverse effect on its net assets, earnings and any dividends it declares if such dividends are to be exchanged or converted into foreign currency. Moreover, the Group has not hedged its foreign exchange risk.

Material acquisitions or disposals of subsidiaries and associated companies

On 27 April 2012, the Group through its wholly-owned subsidiary, Creation Power Group Limited, acquired 70% equity interest in Buildrich Limited ("Buildrich") and its subsidiaries at a total consideration of RMB112 million. Buildrich is an investment holding company and indirectly held Manzhouli Triple Success Co., Ltd., which is engaged in the provision of wood processing services for timber logs in the PRC. Through this acquisition, the Group is able to expand its business to downstream operation.

Borrowing and Gearing Ratio

As at 30 June 2012, the Group had the Senior Notes of USD180 million bearing interest at 10.25% per annum, and repayable on 17 November 2015.

At 30 June 2012, the bank loans amounted to RMB80 million bear interest ranged from 6.31% to 8.60% per annum and are 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, repayable within one year.

The Group's gearing ratio is total debts divided by total assets. The Group's policy is to keep the gearing ratio at reasonable level. The Group's gearing ratio as at 30 June 2012 was 0.44 (31 December 2011: 0.41).

Employee and Remuneration Policy

As at 30 June 2012, the Group had a total of 702 employees (31 December 2011: 317 employees). The Group's employment and remuneration policies remain the same as those described in the Annual Report for the year ended 31 December 2011.

CORPORATE GOVERNANCE

Code Provision A.2.1 of the Code of Corporate Governance Practices (the “Code”) as was set out in Appendix 14 of the Listing Rules stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

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, chairman of the Company, was appointed as the chief executive officer. 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.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company was not, for any part of the six months ended 30 June 2012, in compliance with the code provisions of the Code for the period from 1 January 2012 to 31 March 2012 or the code provisions of the existing Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

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

During the period ended 30 June 2012, the Company, through its subsidiary, China Zhaoneng Group Limited, purchased an aggregate principal amount of US\$4,000,000 of its Senior Notes due on 17 November 2015. Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2012.

MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 of 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 Group, they confirmed that they have complied with the required standard of dealings as set out in the Model Code.

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.

REVIEW OF INTERIM RESULTS

The audit committee of the Group currently comprises three independent non-executive directors, namely Ms. Hsu Wai Man, Helen (Chairlady of the Audit Committee), Mr. Liu Can and Mr. Zhu De Miao. All members of the audit committee have reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2012.

The accounting information in respect of the six months ended 30 June 2012 and as at 30 June 2012 contained in this announcement has not been audited by the auditor of the Company.

INTERIM DIVIDEND

The board of Directors of the Company has resolved not to recommend an interim dividend in respect of the six months ended 30 June 2012.

APPRECIATION

I would like to take this opportunity to thank my fellow directors, our staff and all our stakeholders for their continued support.

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

Hong Kong, 30 August 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 Fan Zhi, and the independent non-executive Directors of the Company are Mr. Liu Can, Mr. Zhu De Miao and Ms. Hsu Wai Man, Helen.