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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)

CLARIFICATION OF NEWS

The board (the “**Board**”) of directors (the “**Directors**”) of China Forestry Holdings Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) wishes to clarify certain information about the Company as reported in recent press articles (the “**Articles**”) appearing on 20 May 2013 and 21 May 2013 issues of the Hong Kong Economic Journal. The Board would also like to set out the background of the allegations (the “**Allegations**”) contained in the Articles for the information of the shareholders of the Company and the investment public.

BACKGROUND

The Board noted that since irregularities have been reported by the former auditors of the Company in the course of the audit process in respect of the financial statements of the Company for the year ended 31 December 2010 in January 2011, the Company has devoted significant resources and attention to rectify historical issues and to restore the business operations of the Group. In particular, as disclosed in the announcements of the Company dated 26 January 2011, 31 January 2011, 2 March 2011, 3 March 2011, 29 April 2011, 14 October 2011, 27 April 2012 and 30 April 2012, respectively, and the 2010 annual report (the “**2010 Annual Report**”), the 2011 annual report (the “**2011 Annual Report**”) and 2012 annual report (the “**2012 Annual Report**”) of the Company released on 19 May 2011, 16 May 2012 and 21 May 2013, respectively, the Company has put significant effort in (i) conducting a fully investigation on the irregularities; (ii) reconstructing the historical financial information of the Group; (iii) safeguarding and recovering the assets of the Group; (iv) replacing the former management team who were involved in the irregularities with a new management team; (v) conducting a review of the Group’s internal control and implementing new procedures to enhance the internal control of the Group; (vi) restoring the business operations of the Group and exploring new business segments.

CLARIFICATION

Alleged guarantee to related party

In the Articles, it was alleged that the Company, through its subsidiary, provided guarantee for a bank loan of RMB50 million borrowed by the sister-in-law of the chairman of the Board, Mr. Li Kwok Cheong (the “**Chairman**”). The Board clarifies that this allegation is not true.

As disclosed in the 2012 Annual Report, on 7 December 2012, the Group entered in an agreement (the “**Loan Agreement**”) with an independent third party (the “**Borrower**”) pursuant to which the Group lent RMB50,000,000 to the Borrower for one year commencing from 7 December 2012. Such loan is secured by the accounts receivables and various paintings pledged to the Borrower under a mortgage agreement between the Borrower and a company (the “**Mortgagor**”), the legal representative of which is a sister-in-law of the Chairman, in connection with a loan of RMB50 million borrowed by the Mortgagor from the Borrower pursuant to a loan agreement between the Mortgagor and the Borrower dated 6 December 2012.

The Board confirmed that, to the best of its knowledge having made all reasonable enquiry, the Borrower is an independent third party which has no relationship to the Company, its connected persons and their respective associates. The Board further confirmed that, to the best of its knowledge having made all reasonable enquiry, other than the sister-in-law of the Chairman being its legal representative, who is not a director nor a shareholder of the Mortgagor, the Mortgagor and its shareholders have no relationship with the Company, its connected persons and their respective associates. Accordingly, the Loan Agreement does not constitute a connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) or a related party transaction of the Company. In addition, as each of the applicable percentage ratios of the Loan Agreement is below 5%, the Loan Agreement does not constitute a notifiable transaction under the Listing Rules.

Acquisition of planation assets at an inflated consideration since 2010

In the Articles, it was alleged that the Company overstated the price it paid to acquire certain forests in Ninglang County (寧蒗), Lijiang City, Yunnan Province, the People’s Republic of China (the “**PRC**”) according to certain internal document titled *Report On The Status of 89,000 mu Forest In Ning Lang* (關於寧蒗8.9萬畝林地處理情況報告) (the “**Memo**”).

The Company believes that the Memo refers to an internal report prepared by the management of one of its subsidiaries, Yunnan Zhaoneng Wood Investment Co., Ltd. (“**Yunnan Zhaoneng**”) which was submitted to the senior management of the Company in May 2013, setting out the internal report in respect of, among other things, the attempts by local forest owners to compel the Group to acquire their forestry rights and pay the consideration, which the Group has refused to comply because, to the best of the knowledge of the Directors, the Group had never agreed to acquire their forestry rights. The Memo is not related to any investigation commissioned by the Company. In addition, the matters

mentioned in the Memo are not related to the acquisition of forestry rights in Ning Lang as disclosed in the announcement of Company dated 26 February 2010, contrary to what the allegation in the Articles implied.

The Board would like to inform its shareholders and the investment public that, to the best of its knowledge after all reasonable enquiry, the matters giving rise to this allegation have been investigated in the course of the investigation and forensic review conducted by the independent board committee (with the assistance of a major accounting firm and other professionals) as disclosed in the announcements of the Company dated 29 April 2011, 14 October 2011 and 27 April 2012.

The Board acknowledged that as disclosed in the 2010 Annual Report, 2011 Annual Report and the 2012 Annual Report, due to the loss of certain books and records, the Company is not in a position to ascertain the particulars of the above-mentioned transaction. The Board further confirmed that adequate provision has been made in respect of the plantation assets in its financial statements for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 as set out in the 2011 Annual Report and 2012 Annual Report.

Fictitious purchase of timber logs in January 2011

In the Articles, it was alleged that the Group had entered into certain timber purchase agreement with a third party, and a certain portion of the purchase price for the timber had been transferred to another party and could no longer be traced.

The Board would like to inform its shareholders and the investment public that, to the best of its knowledge after all reasonable enquiry, the matters giving rise to this allegation have been investigated in the course of the investigation and forensic review conducted by the independent board committee (with the assistance of a major accounting firm and other professionals) as disclosed in the announcements of the Company dated 29 April 2011, 14 October 2011 and 27 April 2012.

The Board acknowledged that as disclosed in the 2010 Annual Report, 2011 Annual Report and the 2012 Annual Report, due to the loss of certain books and records, it was not able to fully reconstruct the financial position of the Group at the time when the timber purchase agreement as mentioned in the Articles or to trace the funds paid to third parties pursuant to such agreement. The Board confirmed that adequate provision has been made in this respect in its financial statements for the years ended 31 December 2011 and 31 December 2012 as set out in its 2011 Annual Report and 2012 Annual Report, respectively, which already reflects the financial impact of the transactions under the said timber purchase agreement and the relevant provisions.

Fictitious acquisition of company and forestry assets in 2010

In the Articles, it was alleged that (i) a subsidiary of the Company was involved in a fictitious acquisition of a company established in the PRC for RMB60 million, and that the Group has only recovered RMB20 million; and (ii) certain subsidiaries of the Company paid RMB420 million in aggregate to a third party for the acquisition of certain forests, yet no title to the relevant forests was transferred to the Group and the Group was not able to recover the purchase price paid.

The Board would like to inform its shareholders and the investment public that, to the best of its knowledge after all reasonable enquiry, the matters giving rise to this allegation have been investigated in the course of the investigation and forensic review conducted by the independent board committee (with the assistance of a major accounting firm and other professionals) as disclosed in the announcements of the Company dated 29 April 2011, 14 October 2011 and 27 April 2012.

The Board acknowledged that as disclosed in the 2010 Annual Report, 2011 Annual Report and the 2012 Annual Report, due to the loss of certain books and records, the Company is not in a position to ascertain the particulars of the above-mentioned transactions. The Board further confirmed that adequate provision has been made in this respect in its financial statements for the years ended 31 December 2010, 31 December 2011 and 31 December 2012 as set out in the 2010 Annual Report, 2011 Annual Report and 2012 Annual Report, respectively, which already reflects the financial impact of the transactions under the said forests purchase agreement and the relevant provisions.

Classification of plantation assets acquired by the Group

In the Articles, it was alleged that certain plantation assets acquired by the Group in 2010 have been classified as eco-forests (生態林) in 2011, and therefore have no commercial value to the Company due to prohibition of harvesting activities in eco-forests.

The Company clarified that as at the date of this announcement, none of the plantation assets it owned is classified as eco-forests. The Company also would like to clarify that in according to the relevant PRC rules and regulations, harvesting activities are permitted in eco-forests under certain conditions with the approval of the relevant forestry bureaus.

GENERAL

The Board would like to emphasize that the current management team and itself are committed to protect and recover the assets of the Company, as well as to restore and develop the business of the Group with a view to creating value to the Company's shareholders. The Board apologizes for any inconvenience and misunderstanding that may be caused by the Allegations.

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

Hong Kong, 23 May 2013

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. Liu Can, Dr. Liu Yongping and Ms. Hsu Wai Man, Helen.