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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 2013**

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 2013 together with the comparative figures.

CONDENSED CONSOLIDATED INCOME STATEMENT*for the six months ended 30 June 2013*

		Six months ended 30 June	
	<i>Note</i>	2013	2012
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	3	101,012	37,044
Cost of sales		(94,316)	(34,719)
Other operating income	5	43,587	13,675
Amortisation of insurance premium		(257)	(48)
Amortisation of lease prepayments		(5,421)	(4,641)
Consultancy fees		(3,532)	(9,796)
Depreciation		(8,212)	(5,636)
Foreign exchange loss		(2,435)	(123)
Other operating expenses		(38,612)	(21,329)
Rental expenses of properties		(4,636)	(4,328)
Staff costs		(18,052)	(19,928)
Travelling expenses		(4,252)	(3,072)
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		(35,126)	(48,731)
Finance income		6,883	7,054
Finance expenses		(61,949)	(61,933)
Net finance costs	6(a)	(55,066)	(54,879)
Loss before taxation	6	(90,192)	(103,610)
Income tax	7	(14)	–
Loss for the period		(90,206)	(103,610)
Attributable to:			
Owners of the Company		(88,571)	(102,733)
Non-controlling interests		(1,635)	(877)
Loss for the period		(90,206)	(103,610)
Loss per share (RMB)			
Basic and diluted	9	(0.03)	(0.03)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Loss for the period	<u>(90,206)</u>	<u>(103,610)</u>
Other comprehensive income for the period		
Exchange differences on translation of financial statements of group entities outside of the PRC	<u>8,291</u>	<u>4,932</u>
Total other comprehensive income for the period	<u>8,291</u>	<u>4,932</u>
Total comprehensive loss for the period	<u><u>(81,915)</u></u>	<u><u>(98,678)</u></u>
Attributable to:		
Owners of the Company	(80,280)	(97,801)
Non-controlling interests	<u>(1,635)</u>	<u>(877)</u>
Total comprehensive loss for the period	<u><u>(81,915)</u></u>	<u><u>(98,678)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2013

	<i>Note</i>	As at 30 June 2013 <i>RMB'000</i> (unaudited)	As at 31 December 2012 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment		142,248	145,418
Lease prepayments		311,084	316,564
Intangible assets		6,000	–
Plantation assets	10	2,031,255	2,033,900
Prepayment for forest acquisition		48,985	49,787
Deposit for construction of a property		6,212	6,212
Deferred tax assets		3,642	3,642
Total non-current assets		<u>2,549,426</u>	<u>2,555,523</u>
Current assets			
Lease prepayments		10,783	10,724
Inventories		58,659	39,405
Trade and other receivables	11	143,007	88,363
Loan receivable		30,000	50,000
Due from customers on construction contracts		29,182	28,804
Financial assets at fair value through profit or loss		42,777	66,560
Pledged bank deposits		7,300	10,700
Cash and cash equivalents		236,153	395,876
Total current assets		<u>557,861</u>	<u>690,432</u>
Current liabilities			
Trade and other payables	12	(599,827)	(617,627)
Current income tax payable		(71,383)	(71,385)
Interest-bearing borrowings		(39,786)	(70,000)
Financial guarantee liabilities		–	(3,000)
Total current liabilities		<u>(710,996)</u>	<u>(762,012)</u>
Net current liabilities		<u>(153,135)</u>	<u>(71,580)</u>
Total assets less current liabilities		<u>2,396,291</u>	<u>2,483,943</u>
Non-current liabilities			
Interest-bearing borrowings		(1,100,712)	(1,106,989)
Total non-current liabilities		<u>(1,100,712)</u>	<u>(1,106,989)</u>
NET ASSETS		<u>1,295,579</u>	<u>1,376,954</u>
CAPITAL AND RESERVES			
Share capital		20,797	20,797
Reserves		1,234,145	1,313,885
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>1,254,942</u>	<u>1,334,682</u>
NON-CONTROLLING INTERESTS		<u>40,637</u>	<u>42,272</u>
TOTAL EQUITY		<u>1,295,579</u>	<u>1,376,954</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

1 BASIS OF PREPARATION

The unaudited condensed consolidated financial statements 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 unaudited condensed consolidated financial statements has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the adoption of new and revised International Financial Reporting Standards (“IFRSs”) that are expected to be reflected in the 2013 annual financial statements. Details of the new and revised IFRSs are set out in note 2.

The unaudited condensed consolidated financial statements contains condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position 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 2012 annual financial statements. The unaudited condensed consolidated 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 condensed consolidated financial statements are unaudited, but has been reviewed by the Company’s Audit Committee.

The unaudited condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2012. The financial information relating to the financial year ended 31 December 2012 that is included in the unaudited condensed consolidated financial statements 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 2012 are available from the Company’s registered office. The auditors have expressed a disclaimer of opinion on those financial statements in their report dated 30 April 2013.

Going concern

The Group incurred a loss attributable to the owners of the Company of RMB88,571,000 and net cash outflow from operating activities of RMB88,076,000 for the period ended 30 June 2013 and had net current liabilities of RMB153,135,000 and net debt of RMB897,045,000 as at 30 June 2013. In preparing these condensed consolidated financial statements, the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and the Company and the ability of the Group and the Company to attain profitable and positive cash flows from operations in the immediate and longer term.

Based on the projections of the Group and having taken into account the available financial resources of the Company, the directors have concluded that the Group and the Company is able to continue as a going concern and to meet their financial liabilities as and when they fall due in the foreseeable future.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these condensed consolidated financial statements.

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	
	2013	2012
	RMB’000	RMB’000
	(unaudited)	(unaudited)
Sales of logs from harvesting activities	7,816	18,758
Sales of logs and lumbers from trading activities	72,271	13,267
Revenue from provision of wood processing and construction services	20,925	5,019
	<u>101,012</u>	<u>37,044</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 2013 (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	7,816	72,271	20,925	101,012
Inter-segment revenue	—	8,998	—	8,998
Reportable segment revenue	<u>7,816</u>	<u>81,269</u>	<u>20,925</u>	110,010
Less: inter-segment revenue				<u>(8,998)</u>
Consolidated revenue				<u>101,012</u>
Segment results	<u>(16,866)</u>	<u>10,389</u>	<u>(8,270)</u>	(14,747)
Unallocated finance income				6,585
Unallocated finance expenses				(61,128)
Unallocated other operating income				30,428
Unallocated corporate expenses				(27,880)
Fair value loss on financial assets at fair value through profit or loss				<u>(23,450)</u>
Loss before taxation				<u>(90,192)</u>

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	<u>—</u>	<u>2,625</u>	<u>—</u>	<u>2,625</u>
Reportable segment revenue	<u>18,758</u>	<u>15,892</u>	<u>5,019</u>	39,669
Less: inter-segment revenue				<u>(2,625)</u>
Consolidated revenue				<u>37,044</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 2012. 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 2013 <i>RMB'000</i> (unaudited)	As at 31 December 2012 <i>RMB'000</i> (audited)
Assets		
Forestry management	2,466,824	2,566,440
Trading operation	185,234	172,773
Wood processing and construction	<u>280,143</u>	<u>264,008</u>
Total segment assets	2,932,201	3,003,221
Financial assets at fair value through profit or loss	42,777	66,560
Deferred tax assets	3,642	3,642
Loan receivable	30,000	50,000
Unallocated corporate assets	<u>98,667</u>	<u>122,532</u>
Consolidated assets	<u><u>3,107,287</u></u>	<u><u>3,245,955</u></u>

Segment liabilities

	As at 30 June 2013 <i>RMB'000</i> (unaudited)	As at 31 December 2012 <i>RMB'000</i> (audited)
Liabilities		
Forestry management	507,233	537,766
Trading operation	38,116	17,930
Wood processing and construction	<u>18,535</u>	<u>17,652</u>
Total segment liabilities	563,884	573,348
Interest-bearing borrowings	1,130,712	1,176,989
Current tax income payable	71,383	71,385
Unallocated corporate liabilities	<u>45,729</u>	<u>47,279</u>
Consolidated liabilities	<u><u>1,811,708</u></u>	<u><u>1,869,001</u></u>

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

- all assets are allocated to operating segments other than loan receivable, 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 income 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	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Customer A – revenue from sales of timber logs and lumbers from forestry management	5,885	16,029
Customer B – revenue from sales of timber logs and lumbers from trading operation	10,684	4,797
Customer C – revenue from wood processing and construction	<u>7,320</u>	<u>4,289</u>

Other segment information (unaudited)

	Forestry management	Trading operation	Wood processing and construction	Unallocated	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
For the six months ended 30 June 2013					
Other operating income	–	13,104	55	30,428	43,587
Finance income	202	80	16	6,585	6,883
Finance expenses	–	821	–	61,128	61,949
Depreciation of property, plant and equipment	1,038	305	5,337	1,532	8,212
Reversal of impairment loss on trade receivable	–	1,200	–	–	1,200
Reversal of impairment loss on prepayment for purchase of inventories	–	6,170	–	–	6,170
Reversal of written off inventories	–	5,134	–	–	5,134
Gain on disposal of property, plant and equipment	–	–	–	2	2
Amortisation of lease prepayments	4,620	–	801	–	5,421
Additions of property, plant and equipment	<u>1,349</u>	<u>58</u>	<u>6,045</u>	<u>141</u>	<u>7,593</u>

	Forestry management <i>RMB'000</i>	Trading operation <i>RMB'000</i>	Wood processing and construction <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated <i>RMB'000</i>
For the six months ended 30 June 2012					
Changes in fair value of plantation assets					
less costs to sell	1,200	–	–	–	1,200
Other operating income	1,152	12,160	–	363	13,675
Finance income	918	265	6	5,865	7,054
Finance expenses	196	13	2	61,722	61,933
Depreciation of property, plant and equipment	815	291	2,711	1,819	5,636
Reversal of impairment loss on trade receivables	–	5,750	–	–	5,750
Reversal of impairment loss on other receivables	–	3,000	–	–	3,000
Reversal of impairment loss on prepayment for purchase of inventories	–	3,365	–	–	3,365
Amortisation of lease prepayments	4,552	–	89	–	4,641
Additions of property, plant and equipment	582	600	137,808	1,473	140,463
Additions of lease prepayments	–	–	21,134	–	21,134

5 OTHER OPERATING INCOME

	Six months ended 30 June	
	2013	2012
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Commission income	–	345
Disposal of fixed assets	2	–
Reversal of impairment loss on trade receivables	1,200	5,750
Reversal of impairment loss on prepayment for purchase of inventories	6,170	3,365
Reversal of impairment loss on other receivables	–	3,000
Reversal of written off inventories	5,134	–
Government grants	–	54
Recovery of embezzled funds (<i>Note</i>)	30,000	–
Others	1,081	1,161
	<u>43,587</u>	<u>13,675</u>

Note: In January 2011, the Group discovered that the former chief executive officer, Mr Li Han Chun embezzled funds of approximately RMB30 million from the Group. During the six months ended 30 June 2013, the Group received a refund of RMB30 million from public security bureau as a recovery of the embezzled funds.

6 LOSS BEFORE TAXATION

a) Net finance costs

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Finance income		
Interest income earned from deposits with banks	<u>557</u>	<u>1,474</u>
Total interest income on financial assets not at fair value through profit or loss	557	1,474
Interest income from financial assets at fair value through profit or loss	<u>6,326</u>	<u>5,580</u>
	<u>6,883</u>	<u>7,054</u>
Finance expenses		
Interest on borrowings wholly repayable within five years		
– bank loans	(1,716)	(820)
– senior notes	(60,066)	(60,861)
– other loans	<u>(167)</u>	<u>–</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	(61,949)	(61,681)
Others	<u>–</u>	<u>(252)</u>
	<u>(61,949)</u>	<u>(61,933)</u>
Net finance costs	<u>(55,066)</u>	<u>(54,879)</u>

b) Other items

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories sold	94,316	30,857
Fair value loss on financial assets at fair value through profit or loss	<u>23,450</u>	<u>8,150</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 these jurisdictions.
- (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 2013 and 2012.
- (c) No provision for PRC enterprise income tax is required for the six months ended 30 June 2012 as the Group did not have any assessable profits subject to PRC enterprise income tax. Under the PRC tax law, the Corporate Income Tax rate of the PRC was 25% for the six months ended 30 June 2013 (six months ended 30 June 2012: 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.

8 DIVIDENDS

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

	Six months ended 30 June	
	2013	2012
	RMB’000	RMB’000
Special dividend in respect of the previous financial year, approved and paid during the period ended 30 June 2012, of HK2.54 cent (RMB2.06 cent) per ordinary share	<u><u>-</u></u>	<u><u>63,124</u></u>

- (b) The Board does not recommend the payment of dividends attributable to the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

9 LOSS PER SHARE

	Six months ended 30 June	
	2013	2012
	(unaudited)	(unaudited)
Loss attributable to owners of the Company (RMB’000)	<u><u>88,571</u></u>	<u><u>102,733</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>(0.03)</u></u>

The diluted loss per share for the six months ended 30 June 2013 and 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.

10 PLANTATION ASSETS

	As at 30 June 2013 <i>RMB'000</i> (unaudited)	As at 31 December 2012 <i>RMB'000</i> (audited)
At 1 January 2013/1 January 2012	2,033,900	2,898,000
Changes in fair value less costs to sell and other reconciling items	–	(858,230)
Harvested timber transferred to inventories	<u>(2,645)</u>	<u>(5,870)</u>
At 30 June 2013/31 December 2012	<u><u>2,031,255</u></u>	<u><u>2,033,900</u></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 2013 <i>RMB'000</i> (unaudited)	As at 31 December 2012 <i>RMB'000</i> (audited)
0 – 90 days	9,138	20,565
91 – 180 days	2,611	2,308
181 – 365 days	<u>6,413</u>	<u>–</u>
	<u><u>18,162</u></u>	<u><u>22,873</u></u>

Trade and bills receivable are due within 10 days to 30 days from the date of delivery of goods.

12 TRADE AND OTHER PAYABLES

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

	As at 30 June 2013 <i>RMB'000</i> (unaudited)	As at 31 December 2012 <i>RMB'000</i> (audited)
Within 1 month or on demand	481	2,729
After 1 month but within 3 months	3,308	2,654
After 3 months but within 6 months	1,054	287
After 6 months but within 1 year	4,700	61
After 1 year	<u>5,180</u>	<u>5,120</u>
	<u><u>14,723</u></u>	<u><u>10,851</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2013, the Company continued to focus on implementing its vertically-integrated development strategy in China.

For the six months ended 30 June 2013 (the “**Current Period**”), the Company recorded turnover of approximately RMB101 million, representing an increase of approximately 173% over the same period in 2012. The majority of the increase was mainly attributable to the Group’s lumber trading. Other revenue contributions include the high-end wood processing and trading in Manzhouli Triple Success Co., Ltd. (“**Triple Success**”). Loss attributable to owners of the Group amounted to approximately RMB88.6 million as compared to a loss of approximately RMB102.7 million for the same period in 2012. The loss was mainly due to a slow recovery in harvesting activities, which were hindered by a severe earthquake in Sichuan in April 2013, as well as the higher operational costs of newly developed businesses.

The Group’s wood trading business sold approximately 76,000 cubic meters of logs and generated approximately RMB72.3 million in revenue for the six months ended 30 June 2013, an increase of approximately 533% and 444% compared to approximately 12,000 cubic meters and approximately RMB13.3 million, respectively, in the same period in 2012.

Lumber were mainly traded in Yunnan Province and at Manzhouli, Inner Mongolia. In Yunnan Province, approximately 70,800 cubic metres of lumber were traded.

For the Current Period, the Group harvested approximately 10,700 cubic meters of timber logs mainly in Sichuan Province, representing a decrease of approximately 20,000 cubic meters over the same period in 2012. The harvesting activities were hindered by the Sichuan earthquake in April 2013 since the transport routes leading to the forest were cut off and the felling team has been unable to operate. Therefore, harvesting activities have been limited since May 2013.

The wood processing activities of Triple Success witnessed steady growth during the Current Period. However, the performance of Triple Success has been affected by the depreciation of the Japanese Yen, which had been the settlement currency with the Group’s major Japanese clientele. In June 2013, Triple Success entered into an agreement with its Japanese clientele stipulating that future transactions be settled in USD.

In the first half of 2013, the Group continued to promote the development of forest-based ecological energy by providing technical services and high-tech products for the utilization and development of this energy resource in China. China Forestry has strategically developed the wood-frame house manufacturing and construction business with a view to accelerating the Group’s downstream forestry operations.

Meanwhile, the Group also paid continued efforts to developing its saplings business by focusing on saplings trading, which presents higher margins. By replanting high-quality saplings such as Liriodendron Chinese while utilizing life science technologies, the Group strives to elevate the quality of its forest resources and expects higher turnover in the future.

As at 30 June 2013, the Company had a cash and bank balance of approximately RMB236.15 million, of which approximately HK\$6.28 million, RMB111.89 million and US\$13.73 million were maintained in the PRC and approximately HK\$0.43 million, RMB27.06 million and US\$2.08 million were maintained in Hong Kong.

Prospects

Given that China's economy is no longer developing at double-digit rates of growth and has entered a mature stage featuring more robust but slower growth, the market demand for wood products will still be supported by all kinds of infrastructure projects. The Group is cautiously optimistic about the future of the forestry industry.

Looking forward, China Forestry will continue to implement its vertically-integrated development strategy by exploring downstream businesses to capture opportunities throughout the industry value chain.

Triple Success, one of the largest high-end wood processing plants in Asia will continue expanding its high-end wood products so as to create synergies with the Company's established log trading business. Meanwhile, Triple Success's production capacity utilization is expected to grow gradually in the second half of 2013.

As for the saplings development business, the Group will continue to conduct further research and development in future. As both the saplings development business and wood-frame houses are at an exploratory stage, China Forestry will leverage its existing resources to optimize the industry value chain.

In addition, the Group will proactively strengthen its corporate governance to establish a solid foundation for future growth to reposition itself as one of the leading players in the industry in the coming future.

Financial Review

Revenue

During the Current Period, the Group recorded total revenue of approximately RMB101 million, representing an increase of approximately 173% over the same period in 2012. The revenue were mainly derived from harvesting activities in Sichuan province and trading of timber logs in Yunnan and the northeastern China.

Staff cost

Staff cost decreased to approximately RMB18.1 million for the period ended 30 June 2013 from approximately RMB19.9 million over the same period last year mainly due to the decrease in directors' remuneration.

Consultancy fees

Consultancy fees for the period decreased to approximately RMB3.5 million for the period ended 30 June 2013 from approximately RMB9.8 million over the same period last year mainly due to the completion of independent investigation and internal control review during last year of the same period.

Foreign exchange loss/gain

The foreign exchange loss increased to approximately RMB2.44 million for the period ended 30 June 2013 from approximately RMB0.12 million over the same period last year mainly due to depreciation of USD against RMB during the current period, as the PRC subsidiaries have kept US Dollar as denominated deposits during the current period.

Other operating expenses

The increase in other operating expenses by approximately 81.2% to approximately RMB38.6 million for the period ended 30 June 2013 from approximately RMB21.3 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\$19,690,000.

Net finance costs

Net finance costs for the period ended 30 June 2013 of approximately RMB61.9 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 RMB88.6 million for the Current Period.

Liquidity And Financial Resources

As of 30 June 2013, the Group had cash and bank balances of approximately RMB236.15 million, of which approximately HK\$6.28 million, RMB111.89 million and USD13.73 million were maintained in the PRC; and approximately HK\$0.43 million, RMB27.06 million and USD2.08 million were maintained in Hong Kong (31 December 2012: RMB632.50 million).

Contingent Liabilities

- a) During the year, the PRC tax authority conducted a tax investigation on a subsidiary in the PRC. Up to the date of approval of these consolidated financial statements, the PRC tax authority is still reviewing the case and no final decision is reached. In the opinion of the directors, the subsidiary has sufficient tax losses to cover the tax liabilities, if any, as a result of the investigation, Therefore, the directors consider that no provision is necessary to be made in these consolidated financial statements.
- b) At the end of the reporting period, a bank deposit of RMB7,300,000 of a subsidiary was pledged to a bank as security for the banking facilities of US\$1,000,000 (equivalent to RMB6,220,000) granted to a PRC entity (the “Borrower”) unrelated to the Group. In return, the shareholder of the Borrower pledged its 50% shareholding interest in the Borrower as a counter guarantee to the Group.

Pledge of Assets

The Senior Notes are secured by the shares of the Company’s certain subsidiaries incorporated in Hong Kong and BVI, and are 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 2013.

At 30 June 2013, the bank loans in the aggregate amount of approximately RMB39.8 million bear interest ranging from 5.25% to 6.90% 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 RMB53,407,000, 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 primarily 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 21 February 2013, the Group through its wholly-owned subsidiary, Cheng Du Fine Fit Forestry Resources Development Co., Ltd., acquired 100% equity interest in Beijing Yanse Catering Co., Limited (Yanse) at a total consideration of RMB6 million. Yanse is engaged in the provision of food and catering services in Beijing. The Group planned to set up a showroom in the restaurant serve for demonstrating wood made products, so as to support the Group's downstream operation.

Borrowing And Gearing Ratio

As at 30 June 2013, the Group had the Senior Notes of USD180 million in issue, bearing interest at 10.25% per annum, and repayable on 17 November 2015.

At 30 June 2013, the bank loans amounted to RMB39.8 million bear interest ranged from 5.25% to 6.90% 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 RMB53,407,000, 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 2013 was 0.58 (31 December 2012: 0.58).

Employee And Remuneration Policy

As at 30 June 2013, the Group had a total of 729 employees (31 December 2012: 715 employees). 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.

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 2013, in compliance with the code provisions of the Code for the six months ended 30 June 2013.

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

During the six month period ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

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 THE UNAUDITED INTERIM FINANCIAL STATEMENTS BY THE AUDIT COMMITTEE

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 Dr. Liu Yongping. All members of the audit committee have reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2013.

INTERIM DIVIDEND

The board of Directors of the Company has resolved not to pay any interim dividend in respect of the six months ended 30 June 2013.

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 2013

As at the date of this announcement, the executive Directors of the Company are Mr. Li Kwok Cheong, Mr. Wei Bin 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, Dr. Liu Yongping and Ms. Hsu Wai Man, Helen.