Directors' Report
Audited Financial Statements
China Forest Industry Holdings Limited
Year ended 31 December 2008

Directors' Report

The directors have pleasure in submitting their report and audited financial statements for the year ended 31 December 2008.

Date of incorporation
The Company was incorporated in Hong Kong with limited liability on 7 July 2008.

Principal activities
The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 13 to the financial statements.

Results and dividends
The results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008 are set out in the consolidated income statement on page 5.

The directors do not recommend the payment of a dividend.

Reserves
Movements in the reserves of the Group and the Company during the year are set out in note 20 to the financial statements.

Directors
The directors who held office during the period and up to the date of this report were:

CHEUNG Lui	(appointed on 7 July 2008)
ZHOU Daofang	(appointed on 8 August 2008)
JIANG Tong	(appointed on 8 August 2008)
ZHOU Gao Ping	(appointed on 8 August 2008)
TRAN Sébastien	(appointed on 8 August 2008)

There being no provision in the Company's Articles of Association for retirement by rotation, all directors shall continue in office.

Directors' interests
Saved as disclosed in note 23 to the financial statements, no other contracts of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

At no time during the period was the Company, its holding company or 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 debentures of, the Company or any other body corporate.

Property, plant and equipment
Details of changes in the property, plant and equipment of the Group during the period are set out in note 9 to the financial statements.

Share capital
Details of changes in the share capital of the Company during the period are set out in note 19 to the financial statements.

Management contracts
No contracts concerning the management and administration of the whole or any substantial part of the business of the Group and of the Company were entered into or existed during the period.

Auditor
Subsequent to the balance sheet date, Mazars CPA Limited, *Certified Public Accountants*, were appointed as the first auditor of the Company.

On behalf of the Board

Director

3 1 AUG 2009

MAZARS

Independent Auditor's Report

To the members of
China Forest Industry Holdings Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Forest Industry Holdings Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 5 to 39, which comprise the consolidated and the Company's balance sheets as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MAZARS CPA LIMITED
瑪澤會計師事務所有限公司
42ND FLOOR, CENTRAL PLAZA, 18 HARBOUR ROAD, WANCHAI, HONG KONG
香港灣仔港灣道18號中環廣場42樓
TEL: (852) 2909 5555 - FAX: (852) 2810 0032 - info@mazars.com.hk - www.mazars.com.hk

MAZARS

Independent Auditor's Report

To the members of
China Forest Industry Holdings Limited
(incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants
Hong Kong 31 AUG 2009

Or Ming Chiu
Practising Certificate number: P04786

China Forest Industry Holdings Limited

Consolidated Income Statement

Year ended 31 December 2008

	Note	2008 EUR	2007 EUR (Unaudited)
Turnover	2	**2,597,719**	1,863,026
Cost of sales		**(242,057)**	(961,809)
Gross profit		**2,355,662**	901,217
(Loss) Gain on change in fair value of biological assets less estimated point-of-sale costs		**(2,877,296)**	13,288,703
Other income	4	**215,868**	10,572
Gain on acquisition of minority interests in a subsidiary		**2,452,105**	-
Administrative expenses		**(375,190)**	(337,218)
Finance costs		**(246,366)**	(76,309)
Profit before taxation	5	**1,524,783**	13,786,965
Taxation credit (charges)	6	**710,176**	(3,182,627)
Profit for the year		**2,234,959**	10,604,338
Attributable to			
Equity holders of the Company		**2,293,550**	7,422,792
Minority interests		**(58,591)**	3,181,546
		2,234,959	10,604,338
Earnings per share			
- Basic and diluted	7	**0.96**	N/A

China Forest Industry Holdings Limited

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 EUR	2007 EUR (Unaudited)
Non-current assets			
Investment properties	8	**662,019**	-
Property, plant and equipment	9	**75,949**	28,154
Construction in progress	10	**-**	137,216
Prepaid lease payments	11	**689,348**	494,576
Biological assets	12	**21,849,879**	20,061,293
		23,277,195	20,721,239
Current assets			
Inventories – low value consumables		**283**	253
Trade and other receivables	14	**2,144,094**	978,595
Bank balances and cash		**22,448**	19,885
		2,166,825	998,733
Current liabilities			
Trade and other payables	15	**2,864,528**	5,477,241
Current portion of interest-bearing borrowings	16	**1,335,542**	538,402
Current portion of long term lease payables	17	**4,466**	14,177
		4,204,536	6,029,820
Net current liabilities		**(2,037,711)**	(5,031,087)
Total assets less current liabilities		**21,239,484**	15,690,152
Non-current liabilities			
Long-term interest-bearing borrowings	16	**1,791,076**	1,206,766
Long term lease payables	17	**136,812**	112,664
Deferred taxation	18	**2,684,745**	3,082,802
		4,612,633	4,402,232
NET ASSETS		**16,626,851**	11,287,920

Consolidated Balance Sheet

At 31 December 2008

	Note	**2008** **EUR**	2007 *EUR* *(Unaudited)*
Capital and reserves			
Share capital	*19*	**5,481,540**	-
Reserves	*20*	**10,329,374**	6,828,038
Equity attributable to equity holders of the parent		**15,810,914**	6,828,038
Minority interest		**815,937**	4,459,882
TOTAL EQUITY		**16,626,851**	11,287,920

Approved and authorised for issue by the Board of Directors on 31 AUG 2009

Director *Director*

Balance Sheet
At 31 December 2008

	Note	2008 *EUR*
Non-current assets		
Interests in subsidiaries	*13*	**5,481,540**
Current assets		
Bank balances and cash		**442**
Current liabilities		
Trade and other payables		**457**
Net current liabilities		**(15)**
NET ASSETS		**5,481,525**
Capital and reserves		
Share capital	*19*	**5,481,540**
Accumulated losses	*20*	**(15)**
TOTAL EQUITY		**5,481,525**

Approved and authorised for issue by the Board of Directors on 3 1 AUG 2009

Director *Director*

China Forest Industry Holdings Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	2008 *EUR*	2007 *EUR* *(Unaudited)*
Total equity at 1 January	**11,287,920**	967,092
Exchange difference on translation of financial statements of a foreign subsidiary	**1,260,049**	(283,510)
Profit for the year	**2,234,959**	10,604,338
Total recognised income and expense attributable to equity holders of the Company	**14,782,928**	11,287,920
Issue of new shares, net of expenses	**5,481,540**	-
Elimination in capital reserve on incorporation of the Company	**(1,119)**	-
Exchange difference in elimination in capital reserve on incorporation of the Company	**7,021**	-
Acquisition of minority interests	**(3,643,519)**	-
Total equity at 31 December	**16,626,851**	11,287,920

China Forest Industry Holdings Limited

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Note	2008 EUR	2007 EUR (Unaudited)
OPERATING ACTIVITIES			
Cash generated from operations	21	**2,444,285**	2,284,214
Interest paid		**(246,366)**	(76,309)
Net cash from operating activities		**2,197,919**	2,207,905
INVESTING ACTIVITIES			
Interest received		**363**	921
Additions of property, plant and equipment and construction in progress		**(568,924)**	(149,439)
Additions of biological assets		**(2,630,596)**	(3,514,686)
Additions of prepaid lease payments		**(161,652)**	(285,746)
Proceeds from disposal of prepaid lease payments		**-**	44,940
Net used in investing activities		**(3,360,809)**	(3,904,010)
FINANCING ACTIVITIES			
New interest-bearing borrowings		**1,801,429**	1,587,360
Repayment of interest-bearing borrowings		**(621,182)**	-
Repayment of long term lease payables		**(16,928)**	-
Net cash from financing activities		**1,163,319**	1,587,360
Net increase (decrease) in cash and cash equivalents		**429**	(108,745)
Cash and cash equivalents at beginning of year		**19,885**	134,505
Effect on exchange rate changes		**2,134**	(5,875)
Cash and cash equivalents at end of year, represented by bank balances and cash		**22,448**	19,885

CORPORATE INFORMATION

China Forest Industry Holdings Limited is a limited liability company incorporated in Hong Kong. Its shares are listed on the Marché Libre of NYSE Euronext Paris. The Company's registered office is located at Room 1503, 15/F., Top Glory Tower, 262, Gloucester Road, Causeway Bay, Hong Kong. In the opinion of the directors, the ultimate parent of the Company is Hong Kong Hua Yang Investment Development Limited, which is incorporated in Hong Kong. The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 13 to these financial statements.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation
These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of presentation
The Company was incorporated in Hong Kong on 7 July 2008 with limited liability. Pursuant to a group reorganization (the ''Reorganisation'') of the timber and forestry related businesses of Singapore China Timber Investment Company Limited and Fujian Taining China South Forestry Develop Company Limited ("FTCS") which was completed on 18 August 2008 in preparation for the listing of the shares of the Company on the Marché Libre of NYSE Euronext Paris ("Marché Libre"), the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in Chapter 6 to the Company's prospectus dated 25 September 2008. The Company's shares were listed on the Marché Libre on 7 October 2008.

As the Company and all its subsidiaries now comprising the Group were ultimately controlled by the same controlling party before and after the Reorganisation, the Reorganisation is considered as a business combination under common control in a manner similar to pooling-of-interests and the merger accounting under Hong Kong Accounting Guideline 5 "Merger accounting under common control combination" issued by the HKICPA. The financial statements present the consolidated balance sheet as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year of the companies now comprising the Group as if the current group structure had been in existence on 1 January 2007, the beginning of the earliest period presented.

As the Company was not incorporated as of 31 December 2007 and the Group structure was not in existence as of that date, no audited consolidated financial statements have been prepared for the year then ended. The comparative information in the financial statements is presented as unaudited in this regard.

In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Going concern
The financial statements have been prepared in conformity with the principles applicable to a going concern basis. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in the future in view of the excess of current liabilities over current assets. The Group has been able to refinance its short-term bank borrowings when due and has obtained certain new bank borrowings subsequent to the balance sheet date. The directors consider that the Group has adequate finance to maintain itself as a going concern.

Basis of measurement
The measurement basis used in the preparation of these financial statements is historical cost, except for biological assets which are measured at fair value as explained in the accounting policies.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognised directly in equity as part of the capital reserve. The financial statement includes the results of each of the combining entities or businesses from the date of incorporation or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

All intra-group balance, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceased.

Minority interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from equity holders of the parent. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated with all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interest as transactions with parties with equity owners of the Group. In acquiring minority interest, the difference between the consideration paid and the carrying value of the share of the net assets acquired is recognised as a deduction from equity. Disposals to minority interest result in gains and losses for the Group are recorded equity.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Subsidiaries
A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, an investment in subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Joint venture
A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly controlled assets
The Group has entered into co-operative agricultural businesses with peasants in Taining County. The co-operation involves operation of moso bamboos and chinquapin forests. Under the co-operative agreements, the Group would provide harvesting rights, capital and technology while the peasants would contribute the necessary manpower.

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements and classified according to their nature. Liabilities and expenses which the Group has incurred in respect of interests in jointly controlled assets are accounted for on an accrual basis.

Income from the sale or use of the Group's share of the output of jointly controlled assets, together with its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transaction will flow to / from the Group.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Goodwill on acquisition of subsidiary is recognised as a separate asset. Goodwill is carried at cost less accumulated impairment losses, which is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment test and determination of gain or loss on disposal, goodwill is allocated to cash-generating units. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries at the date of acquisition, after reassessment, is recognised immediately in profit or loss.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment
Property, plant and equipment, other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	8 years
Computer software	5 years

Construction in progress
Construction in progress is stated at cost less accumulated impairment losses. Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.

Investment properties
Investment properties are land and / or building that are held by owner or lessee under finance lease, to earn rental income and / or for capital appreciation. These include properties held for a currently undetermined future use and properties that are held under operating lease, which satisfy the definition of investment property and carry at fair value.

Investment properties are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost less accumulated impairment losses of investment properties over the shorter of unexpired term of lease and the expected economic useful life of 50 years, using straight-line method, after taking into account their estimated residual values.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year in which the item is derecognised.

Prepaid lease payments
Prepaid lease payments are up-front payments to acquire fixed term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Biological assets
Biological assets are living plants involved in the agricultural activities of the transformation of biological assets into agricultural produce for sale or into additional biological assets. Biological assets, agricultural produce and seedlings, are measured at fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date. The fair value less estimated point-of-sale costs at the time of harvest is deemed as the cost of agricultural produce for further processing, if applicable.

If an active market exists for a biological asset or agricultural produce with reference to comparable specie, growing condition and expected yield of the timbers, the quoted price in that market is adopted for determining the fair value of that asset. If an active market does not exist, the Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the balance sheet date, or the market prices for similar assets adjusted to reflect differences to determine fair values. The gain or loss arising on initial recognition and subsequent changes in fair values less estimated point-of-sale costs of biological assets is recognised in profit or loss in the period in which it arise. Upon the sale of the agricultural produce as forestry products, the carrying amount is transferred to cost of sales in the consolidated income statement.

Deposits received from the sale of pre-harvest biological assets are accrued as liability of deferred revenue and are recognised as revenue in the consolidated income statement upon the transfer to the customers of the risks and rewards associated with ownership when the harvest and delivery of the forestry products have been made.

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognised only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Loans and receivables
Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the profit or loss.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)
Impairment of financial assets
At each balance sheet date, the Group assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities
The Group's financial liabilities include trade and other payables, bank loans and other borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value (being the transaction price, unless the fair value can otherwise be reliably estimated). Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

Cash equivalent
For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Revenue recognition
Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Sale of forestry products is recognised on transfer of risks and rewards of ownership, which generally coincides with the time the goods and forestry products are delivered to customers and title is passed.

Rental income under operating leases is recognised when the properties are let out and on the straight-line basis over the lease terms.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation
Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Exchange differences arising from the translation of the net investment in foreign operations are recognised in a separate component of equity and recognised in income statement on disposal of the foreign operations.

The Group's functional currency is Chinese Yuan Renminbi, which is the currency of the primary economic environment in which the Group operates. For group reporting purpose, the amounts shown in the financial statements are presented in Euros ("presentation currency").

Assets and liabilities for each balance sheet presented are translated at the rates of exchange ruling at the balance sheet date. Income and expenses for each income statement presented are translated at the average rates of exchange ruling during the year, with the resulting exchange differences recognised as a separate component of equity.

On consolidation, the results and financial position of all the Group entities that have a functional currency different from the presentation currency ("foreign operations") are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rate;
- All resulting exchange differences arising from the above translation and exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised as a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences deferred in the separate component of equity relating to that foreign operation is recognised in income statement when the gain or loss on disposal is recognised.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets
At each balance sheet date, the Group reviews internal and external sources of information to determine whether its property, plant and equipment, construction in progress and prepaid lease payments have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Borrowing costs
Borrowing costs are recognised as an expense when incurred.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Employee benefits
Defined contribution plans
The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The Company's subsidiary in the Peoples' Republic of China (the "PRC") participates in defined contribution retirement schemes organised by the local government authorities. All of the PRC employees are entitled to an annual pension equivalent to a fixed portion of their basic salaries at their retirement dates. The Company's PRC subsidiary is required to contribute 19% of the basic salaries of their PRC employees to the retirement schemes and have no further obligation for post-retirement benefits. The contributions are charged to profit or loss of the Group as they become payable in accordance with the rules of scheme.

Taxation
The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)
Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Related parties
A party is related to the Group if
(a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
(b) the party is an associate of the Group;
(c) the party is a joint venture in which the Group is a venturer;
(d) the party is a member of the key management personnel of the Group or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Company.

Critical accounting estimates and judgements
Estimates and assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Fair values of biological assets
The biological assets are stated at fair value less estimated point-of-sale costs. As explained in note 12, the Group's biological assets at the balance sheet date were independently valued by professional valuers. In arriving at the fair value, the professional valuers have adopted certain key assumptions and estimates such as timber prices, operating costs and discount rates. Any change in these assumptions and estimates may affect the fair value of the biological assets significantly.

1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Critical accounting estimates and judgements (Continued)
Fair values of biological assets(Continued)
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 un-anticipated factors affecting harvestable agricultural produce may result in re-measurement or harvest losses in future accounting periods.

Future changes in HKFRS
At the date of authorisation of these financial statements, the HKICPA has issued a number of new / revised HKFRS that are not yet effective for the current period, which the Group has not early adopted. The directors anticipate that the adoption of these new / revised HKFRS in the future periods will have no material impact on the result of the Group.

2. TURNOVER AND REVENUE

	2008	2007
	EUR	*EUR*
		(Unaudited)
Sale of timber plantation and agricultural products	**2,556,003**	294,898
Rental income	**41,716**	-
Sales of forestry land use rights	**-**	1,568,128
	2,597,719	1,863,026

3. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, management has determined that business segments be presented as the primary reporting format. As less than 10% of the consolidated turnover and consolidated operating results of the Group are derived from customers outside the PRC, and over 90% of the Group's assets are originated from business decisions and operations based in the PRC, no geographical segment reporting is provided.

For management purposes, the Group is currently divided into two operating divisions, namely, timber logging and harvesting, and investment holding in forest land use rights.

Segment assets consist primarily of biological assets, property, plant and equipment, receivables and operating cash, excluding corporate assets and taxation. Segment liabilities consist of payables and operating liabilities, excluding corporate liabilities and taxation. Capital expenditure comprises mainly additions to property, plant and equipment and biological assets.

3. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2008

	Timber logging and trading *EUR*	Investment holding in forestry land use right *EUR*	Other operations *EUR*	Consolidated *EUR*
Segment revenue	2,556,003	-	41,716	2,597,719
Segment results	(544,141)	-	22,507	(521,634)
Unallocated corporate expenses				(375,190)
Unallocated interest and other income				2,667,973
Finance cost				(246,366)
Taxation				710,176
Profit for the year				2,234,959
Segment assets	24,623,455	-	819,140	25,442,595
Unallocated corporate assets				1,425
Total assets				25,444,020
Segment liabilities	(8,816,713)	-		(8,816,713)
Unallocated corporate liabilities				(456)
Total liabilities				(8,817,169)
Other information				
Capital expenditure	2,785,066	-	517,136	3,302,202
Depreciation	6,822	-	7,684	14,506
Amortisation	17,982	-	4,544	22,526

3. SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2007 (unaudited)

	Timber logging and trading *EUR*	Investment holding in forestry land use right *EUR*	Consolidated *EUR*
Segment revenue	294,898	1,568,128	1,863,026
Segment results	13,344,592	845,327	14,189,919
Unallocated corporate expenses			(337,217)
Unallocated interest and other income			10,572
Finance cost			(76,309)
Taxation			(3,182,627)
Profit for the year			10,604,338
Segment assets	21,717,321	-	21,717,321
Unallocated corporate assets			2,651
Combined total assets			21,719,972
Segment liabilities	(8,834,068)	-	(8,834,068)
Unallocated corporate liabilities			(1,597,984)
Combined total liabilities			(10,432,052)
Other information			
Capital expenditures	4,018,106	-	4,018,106
Depreciation	4,292	-	4,292
Amortisation	12,156	-	12,156

4. OTHER INCOME

	2008 ***EUR***	2007 *EUR* *(Unaudited)*
Bank interest income	**363**	921
Government awards	**195,161**	-
Sundry income	**20,344**	9,651
	215,868	10,572

5. (LOSS) PROFIT BEFORE TAXATION

	2008	2007
	EUR	*EUR*
This is stated after charging:		*(Unaudited)*
Finance costs		
Interest on bank loans and other borrowings wholly repayable within five years	**61,089**	22,970
Interest on other loans	**185,277**	53,339
	246,366	76,309
Other items		
Employee benefits expense	**144,195**	87,984
Contributions to defined contribution plans	**5,590**	9,568
	149,785	97,552
Cost of inventories	**185,090**	961,618
Auditor's remuneration	**20,803**	6,708
Depreciation	**14,506**	4,292
Amortisation on prepaid lease payment	**22,526**	12,156
Operating lease payments	**33,137**	3,824

Directors' emoluments
Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are EUR 8,357 *(2007 unaudited: EUR Nil).*

6. TAXATION

Hong Kong
Hong Kong Profits Tax has not been provided as the Group had no assessable profits for the year.

The People's Republic of China
Enterprises in the PRC are generally subject to state and local income taxes in the PRC at a standard rate of 30% and 3% respectively, up to 31 December 2007. Pursuant to the Income Tax Law for Foreign Invested Enterprises and Foreign Owned Enterprise of the PRC which was abolished on 1 January 2008, FTCS is exempt from the PRC enterprise income tax for two years commencing from its first profitable year in 2007, followed by a 50% reduction for the following three years.

On 16 March, 2007, the National Peoples' Congress of China enacted a new *Enterprise Income Tax Law* ("NEITL") which became effective commencing 1 January 2008. In December 2007, the State Council of China promulgated the *"Implementation Regulations to the EIT Law"* and the *"Notice to Enterprise income Tax Transition Incentive Policy"*, both of which also became effective commencing 1 January 2008.

6. TAXATION

The People's Republic of China (Continued)
Under these laws and regulations, a unified income tax rate of 25% shall apply to all domestic and foreign invested enterprises, unless they qualify for special tax benefits under certain limited exceptions. The applicable income tax for FTCS is 25% from 1 January 2008 onwards.

However, concession for 50% tax reduction for the following three profitable years which has already granted to FTCS pursuant to the old tax laws can still be maintained up to 2010.

	2008	2007
	EUR	*EUR*
		(Unaudited)
Current tax		
Mainland China Enterprise Income Tax		
Current year	-	-
Deferred taxation		
(Reversal) Origination of temporary difference	**(710,176)**	3,182,627
Total tax (credit) charge for the year	**(710,176)**	3,182,627

Reconciliation of tax expense	**2008**	2007
	EUR	*EUR*
		(Unaudited)
Profit before tax	**1,524,783**	13,786,965
Income tax at applicable tax rate of 25% *(2007: 33%)*	**381,196**	4,549,698
Non-deductible expenses	**100,544**	82,684
Tax exempt revenue	**(614,950)**	-
Effect of tax holiday in the PRC	**(576,966)**	(245,940)
Differences in tax rates outside the PRC	-	127
Recognition of previously unrecognised temporary differences	-	(185,501)
Difference in applicable tax rate on current taxation and deferred taxation	-	(1,018,441)
Tax (credit) expense for the year	**(710,176)**	3,182,627

The applicable tax rate is the PRC income tax rate of 25% *(2007: 33%)* as the Group's only operating subsidiary is domiciled in the PRC.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year of EUR 2,293,550 *(2007 unaudited: profit of EUR 7,422,792)* and the average number of ordinary shares of 2,400,000 *(2007: NIL)* in issue during the year

Diluted earnings per share are not presented as there were no dilutive effect.

8. INVESTMENT PROPERTIES

	The Group	
	2008	2007
	EUR	*EUR*
		(Unaudited)
Carrying amount		
At beginning of year	-	-
Additions	**670,172**	-
Depreciation	**(7,684)**	-
Exchange differences	**(469)**	-
At balance sheet date	**662,019**	-
Represented by:		
Cost	**670,172**	-
Accumulated depreciation	**(8,153)**	-
	662,019	-
Fair value	**931,773**	-

The Group's investment properties are situated in the PRC and held under medium-term leases. The fair value of the investment properties at the balance sheet date were determined by the directors with reference to recent market price of similar properties. No valuation has been performed by independent professional qualified valuers.

9. PROPERTY, PLANT AND EQUIPMENT

<u>**The Group**</u>	**Plant and machinery** *EUR*	**Furniture, fixtures and office equipment** *EUR*	**Motor vehicles** *EUR*	**Computer software** *EUR*	**Total** *EUR*
Reconciliation of carrying amount – year ended 31 December 2007 (unaudited)					
At beginning of year	-	5,595	15,372	-	20,967
Additions	-	4,666	7,557	-	12,223
Depreciation	-	(1,765)	(2,527)	-	(4,292)
Exchange realignment	-	(179)	(565)	-	(744)
At balance sheet date	-	8,317	19,837	-	28,154
Reconciliation of carrying amount – year ended 31 December 2008					
At beginning of year	-	8,317	19,837	-	28,154
Additions	29,653	3,815	16,565	1,755	51,788
Depreciation	-	(2,390)	(3,798)	(634)	(6,822)
Exchange realignment	-	813	2,055	(39)	2,829
At balance sheet date	**29,653**	**10,555**	**34,659**	**1,082**	**75,949**
<u>**The Group**</u>					
At 31 December 2007 (unaudited)					
Cost	-	10,306	22,502	-	32,808
Accumulated depreciation	-	(1,989)	(2,665)	-	(4,654)
	-	8,317	19,837	-	28,154
At 31 December 2008					
Cost	29,653	15,309	41,661	1,755	88,378
Accumulated depreciation	-	(4,754)	(7,002)	(673)	(12,429)
	29,653	**10,555**	**34,659**	**1,082**	**75,949**

10. CONSTRUCTION IN PROGRESS

	The Group	
	2008	2007
	EUR	*EUR*
		(Unaudited)
Carrying amount		
At beginning of year	**137,216**	-
Additions	**517,136**	137,216
Transfer to investment properties *(Note 8)*	**(670,172)**	-
Exchange differences	**15,820**	-
At balance sheet date	**-**	137,216

11. PREPAID LEASE PAYMENTS

	The Group	
	2008	2007
	EUR	*EUR*
		(Unaudited)
At beginning of year	**494,576**	277,158
Additions	**161,652**	285,746
Disposal	**-**	(44,940)
Amortisation	**(22,526)**	(12,156)
Exchange differences	**55,646**	(11,232)
At balance sheet date	**689,348**	494,576
Represented by:		
Medium term land use right in the PRC	**115,709**	108,071
Short to medium term forest land use right in the PRC	**573,639**	386,505
	689,348	494,576

Prepaid lease payments attributable to forest land use rights in the PRC were pledged to secure bank borrowings granted to a subsidiary of the Company.

12. BIOLOGICAL ASSETS

The Group	**Seedlings** *EUR*	**Bamboo and chinquapin** *EUR*	**Standing tree** *EUR*	**Total** *EUR*
Reconciliation of carrying amount – year ended 31 December 2007 (unaudited)				
At beginning of year	9,025	179,126	4,392,222	4,580,373
Additions at fair value	-	887,369	2,695,552	3,582,921
Plantation expenditure incurred	58,606	-	-	58,606
Direct sales	-	-	(867,790)	(867,790)
Change in fair value less point-of-sale costs	-	10,726,060	2,562,643	13,288,703
Exchange differences	(378)	(343,936)	(237,206)	(581,520)
At balance sheet date (unaudited)	67,253	11,448,619	8,545,421	20,061,293
Reconciliation of carrying amount – year ended 31 December 2008				
At beginning of year	67,253	11,448,619	8,545,421	20,061,293
Additions at fair value	-	522,362	2,049,264	2,571,626
Plantation expenditure incurred	75,711	-	-	75,711
Direct sales	-	-	(112,076)	(112,076)
Change in fair value less point-of-sale costs	-	13,779	(2,891,075)	(2,877,296)
Exchange differences	7,754	1,320,768	802,099	2,130,621
At balance sheet date	**150,718**	**13,305,528**	**8,393,633**	**21,849,879**

The Group's biological assets are located in the People's Republic of China. Bamboo, chinquapin and standing trees are planted on leasehold land of approximately 129,000 Chinese Mu with lease terms ranged up to 50 years term, expiring in 2057.

During the year ended 31 December 2008, the Group harvested and sold approximately 1,437 Chinese Mu of round logs, which had a fair value less estimated point-of-sale costs of approximately EUR112,076.

The Group's biological assets were independently valued by Jones Lang LaSalle Sallmanns Limited (the "Valuer"). The Valuer has adopted the following approaches in assessing the valuation of the biological assets:

- Market approach: Applicable for biological assets in their mature age when the assets can be readily harvested and sold in an active market. The fair value of the assets is the market value of respective biological assets less estimated point-of-sale costs.
- Income approach: Applicable for biological assets in their middle age. According to the terms and conditions of forest land use rights, the Group is not allowed to harvest biological assets until they reach mature age. Under the income approach, the Valuer forecasts the probable biological assets reserve at maturity. Fair value of middle aged biological assets is derived from the present value of expected future sales amount.
- Cost approach: Applicable for biological assets in their infant age. Biological assets reserve cannot be reliably measured or estimated in this stage, and change in value due to biological transformation is expected to be minimal. The Valuer refers to the biological assets replacement costs to arrive at a fair value.

12. BIOLOGICAL ASSETS (CONTINUED)

The principal assumptions adopted are as follows:

- the Group is to produce round logs;
- the factors of natural defects in the wood such as physical defects, rots and directions of grain have been allowed for reasonable recovery rate for the valuation.
- the market prices of bamboo, chinquapin and standing trees and harvesting and other expenses will not fluctuate significantly in the foreseeable future;
- the discount rates used in income approach are 8% for standing trees and 12% for bamboos and chinquapins.

Certain Group's biological assets were pledged to secure banking facilities granted to a subsidiary of the Company and an independent third party.

	The Group	
	2008	2007
	EUR	*EUR*
		(Unaudited)
Bank loans	**1,761,000**	2,491,000
Other loans	**6,165,000**	3,108,000
Against personal loans of an independent third party	**336,000**	428,000
	8,262,000	6,027,000

13. INTERESTS IN SUBSIDIARIES

	The Company
	2008
	EUR
Unlisted shares, at cost	**5,481,540**

Details of the subsidiaries at the balance sheet date are as follows:

Name of subsidiaries	Place / Country of incorporation	Nominal value of issued capital	Proportion of nominal value of issued capital directly held by the Company		Principal activities
			Directly	*Indirectly*	
Singapore China Timber Investment Company Limited ("SCTI")	Hong Kong	Ordinary Share HK$59,781,488	100%	-	Investment Holdings
福建泰寧南方林業發展有限公司 Fujian Taining China South Forest Develop Company Limited ("FTCS")	The People's Republic of China	Registered Capital RMB 58,000,000	-	95%	Provision for forest plantation, logging, standing wood transfer, timber production and forestry related service

14. TRADE AND OTHER RECEIVABLES

		The Group	
	Note	**2008** *EUR*	2007 *EUR* *(Unaudited)*
Trade receivables			
From third parties		**117,176**	12,235
Other receivables			
Deposits, prepayments and other receivables		**1,665,975**	966,360
Due from a director	*14(a)*	**360,943**	-
		2,026,918	966,360
		2,144,094	978,595

The Company has no significant trade receivables balances that are past due but not impaired. The Company does not hold any collateral over these balances.

14(a) DUE FROM A DIRECTOR

The amount due from a director is in the nature of a current account including cash received from the customers on behalf of the Group, and is unsecured, interest-free and repayable on demand.

Name of director	**Maximum amount outstanding during the year** *EUR*	**Balance at 31 December 2008** *EUR*	Balance at 1 January 2008 *EUR*
Zhou Daofang	**360,943**	**360,943**	-

15. TRADE AND OTHER PAYABLES

		The Group		The Company	
	Note	**2008** *EUR*	2007 *EUR* *(Unaudited)*	**2008** *EUR*	2007 *EUR* *(Unaudited)*
Trade payables					
To third parties		**1,680,780**	2,250,554	-	-
Other payables					
Accruals and other creditors		**1,025,755**	146,602	-	-
Due to directors	*15(a)*	**26,749**	2,721,128	**457**	-
Due to related parties	*15(a)*	**131,244**	358,957	-	-
		1,183,748	3,226,687	**457**	-
		2,864,528	5,477,241	**457**	-

15(a) DUE TO DIRECTORS / RELATED PARTIES

The amounts due are unsecured, interest-free and have no fixed repayment term.

16. INTEREST-BEARING BORROWINGS

	2008 *EUR*	2007 *EUR* *(Unaudited)*
Bank loans – Secured	**1,004,245**	603,383
Other loans	**2,122,373**	1,141,785
	3,126,618	1,745,168
Current portion	**1,335,542**	538,402
Non-current portion	**1,791,076**	1,206,766
Wholly repayable within five years	**3,126,618**	1,745,168

Interest-bearing loans are borrowed principally for the purpose of acquisitions of forestry land and daily operation of the Group. These loans bear interest ranging from 8.1% to 12.1% per annum *(2007 unaudited: 8.9% to 11.7% per annum).*

17. LONG TERM FINANCE LEASES PAYABLE

	Minimum lease payments and present value of minimum lease payments	
	2008 *EUR*	2007 *EUR* *(unaudited)*
Amount payable:		
Within one year	**4,466**	14,177
In the second to fifth years inclusive	**22,849**	16,016
Over five years	**113,963**	96,648
	141,278	126,841

Finance leases are incepted for acquisition of forest land. They bear no interest and repayable by fixed year instalments over 18 to 20 years. Imputed interest expense on long term finance leases is considered insignificant and has not been accounted for in these financial statements.

18. DEFERRED TAXATION

The movement for the year in the Group's net deferred tax position were as follows:

	2008 *EUR*	2007 *EUR* *(Unaudited)*
At beginning of year	**3,082,802**	-
Income statement charge (credit)	**(710,176)**	3,182,627
Exchange differences	**312,119**	(99,825)
At balance sheet date	**2,684,745**	3,082,802

Deferred tax liabilities of both 2008 and 2007 were attributable to temporary differences arising from fair value adjustments of biological assets. The amount is expected to be recovered after 12 months.

19. SHARE CAPITAL

	2008		
	No. of shares	***HK$***	***EUR***
Authorised:			
Ordinary shares of HK$25 each	**4,000,000**	**100,000,000**	**9,135,898**
Issued and fully paid:			
Issuance on incorporation	**1**	**1**	**1**
New shares issued	**59,999,999**	**59,999,999**	**5,481,539**
Share consolidation	**(57,600,000)**	**-**	**-**
At balance sheet date	**2,400,000**	**60,000,000**	**5,481,540**

The Company was incorporated in Hong Kong with limited liability on 7 July 2008 with EUR10,000 authorised share capital of 10,000 ordinary shares of HK$1 each. On incorporation, 1 ordinary share of HK$1 each were issued at par for cash consideration to provide initial working capital for the Company.

By an ordinary resolution for all the shareholders passed held on 8 august 2008, the authorised share capital of the Company was increased from HK$10,000 to HK$100,000,000 by creation of an additional 99,990,000 ordinary shares of HK$1 each. Immediately after the increase of authorised share capital, 59,999,999 ordinary shares of HK$1 each were issued as consideration of acquiring interests in subsidiaries from Mr. Zhou Daofang.

By an ordinary resolution of the shareholders passed on 18 August 2008, every 25 ordinary shares of HK$1 each were consolidated into 1 consolidated share of HK$25 each. As a result the adjusted authorised share capital of the Company became 4,000,000 ordinary shares of HK$25 each and the issued share capital became 2,400,000 ordinary shares of HK$25 each.

20. RESERVES

The Group

	Attributable to equity holders of the Company					
	Capital reserve *EUR*	Exchange reserve *EUR*	Retained earnings *EUR*	Total *EUR*	Minority interest *EUR*	Total *EUR*
At 1 January 2007 (unaudited)	1,119	11,759	(409,166)	(396,288)	1,363,380	967,092
Exchange differences on translation of financial statements of a foreign subsidiary		(198,466)		(198,466)	(85,044)	(283,510)
Profit for the year			7,422,792	7,422,792	3,181,546	10,604,338
At 31 December 2007 (unaudited) and 1 January 2008	1,119	(186,707)	7,013,626	6,828,038	4,459,882	11,287,920
Eliminated upon reorganisation	(1,119)	7,021	-	(5,902)		(5,902)
Acquisition of minority interest	-	-	-	-	(3,643,519)	(3,643,519)
Exchange differences on translation of financial statements of a foreign subsidiary	-	1,201,884	-	1,201,884	58,165	1,260,049
Profit for the year	-	-	2,293,550	2,293,550	(58,591)	2,234,959
At 31 December 2008	**-**	**1,022,198**	**9,307,176**	**10,329,374**	**815,937**	**11,145,311**

The application of capital reserve account is governed by section 48C of the Hong Kong Companies Ordinance.

The consolidated profit attributable to the equity holders of the Company includes a loss of EUR15 *(2007 unaudited: EUR Nil)*, which has been dealt with in the financial statements of the Company.

The Company

	2008 *EUR*
Accumulated losses	
At beginning of period	-
Net loss for the period	(15)
At 31 December 2008	(15)

21. CASH GENERATED FROM OPERATIONS

	2008 *EUR*	2007 *EUR* *(Unaudited)*
Profit before taxation	**1,524,783**	13,786,965
Depreciation and amortization	**37,032**	16,448
Gain on acquisition of minority interests in a subsidiary	**(2,452,105)**	-
Loss (Gain) on change in fair value of biological assets	**2,877,296**	(13,288,703)
Foreign exchange difference	**(40,774)**	(10,230)
Interest income	**(363)**	(921)
Interest expense	**246,366**	76,309
Changes in working capital:		
Inventories	**-**	(253)
Harvested timber transferred to costs of sales	**112,076**	867,790
Trade and other receivables	**(1,052,675)**	(714,559)
Trade and other payables	**1,192,649**	1,551,368
Cash generated from operations	**2,444,285**	2,284,214

22. MAJOR NON-CASH TRANSACTION

During the year, 59,999,999 ordinary shares of the Company were issued at par as partial consideration for the acquisition of equity interests in SCTI.

23. RELATED PARTIES TRANSACTIONS

In addition to the transactions / information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties:

Related party relationship	**Nature of transaction**	2008 *EUR*	2007 *EUR* *(Unaudited)*
Key management personnel, including directors	Compensation Short-term employee benefits	**8,357**	8,207

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of interest-bearing borrowings, bank balances and cash. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its business activities.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments by category
The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

	2008	2007
	EUR	*EUR*
Loans and receivables:		
Trade and other receivables	**2,144,094**	978,595
Bank balances and cash	**22,448**	19,885
Financial liabilities measured at amortised cost:		
Trade and other payables	**2,864,528**	5,477,241
Long term finance leases payable	**141,278**	126,841
Interest-bearing borrowings	**3,126,618**	1,745,168

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. However, the board of directors generally adopts conservative strategies on its risk management and limits the Group's exposure to these risks to a minimum as follows:

Foreign currency risk
The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB which is not freely convertible into other foreign currencies. Conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. FTCS transact in its functional currency and therefore no currency risk is expected to arise in respect of this subsidiary. The Company's financial statements are presented in Euros ("EUR") and fluctuations of RMB against EUR will only give rise to exchange translation differences which are dealt with in the exchange reserve. The Group currently does not utilise any forward contracts, currency borrowings or other means to hedge against its foreign currency exposure.

Credit risk
Credit risk refers to the risk that debtors will default on their obligations to repay the amounts due to the Group, resulting in a loss to the Group. The Group's credit risk is mainly attributable to bank balances and trade and other receivables.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group had a concentration of credit risk as 88% *(2007: 58%)* and 100% *(2007: 100%)* of the total trade receivables was due from the Group's largest customer and the two largest customers respectively.

Except for the corporate guarantee provided by the Group to a bank in PRC to the extent of EUR 207,061 (*2007: EUR 185,656)* where no financial liability has been recognised by the Group in relation to the guarantee, the carrying amount of financial assets recorded in the financial statements represents the Group's exposure to credit risk as mentioned in note 14 above.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings. Management of the Group aims at maintaining sufficient level of cash to finance the Group's operations and expected expansion. The Group's primary cash requirements include payments for operating expenses, additions or upgrades of property, plant and equipment and forestry land on which biological assets are planted. The Group finances its long-term and short-term working capital requirements mainly by the funds generated from operations and a combination of interest-bearing borrowings of different maturity profiles.

The maturity profile of the financial liabilities of the Group and the Company at the balance sheet date based on contractual undiscounted payments are summarised below:

	On demand	**Less than 1 year**	**1 – 5 years**	**Over 5 years**	**Total**
	EUR	*EUR*	*EUR*	*EUR*	*EUR*
At 31 December 2008					
Interest-bearing borrowings	-	**1,587,693**	**1,919,776**	-	**3,507,469**
Long term finance lease payables	-	**4,466**	**22,849**	**113,963**	**141,278**
Trade and other payables	**2,864,528**	-	-	-	**2,864,528**
	2,864,528	**1,592,159**	**1,942,625**	**113,963**	**6,513,275**

	On demand	Less than 1 year	1 – 5 years	Over 5 years	Total
	EUR	*EUR*	*EUR*	*EUR*	*EUR*
At 31 December 2007 (unaudited)					
Interest-bearing borrowings	-	696,233	1,353,902		2,050,135
Long term leases payables	-	14,177	16,016	96,648	126,841
Trade and other payables	5,477,241	-	-	-	5,477,241
	5,477,241	710,410	1,369,918	96,648	7,654,217

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Nature risk
The Group's revenue depends significantly on the ability to harvest wood and planation at adequate levels. The ability to harvest wood and planation in the concessions and the growth of the trees in the plantations 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 and bamboos available for harvesting trees and bamboos in the concessions, or otherwise impede the Group's logging operations or the growth of the trees in the plantations, which in turn may have a material adverse effect on the Group's ability to produce the products in sufficient quantities and a timely manner.

Moreover, bad weather may adversely affect the condition of the Group's transportation infrastructure, which is critical for the Group to supply timber from the concessions to the customers. The Group has developed a strategy for utilising different transportation modes and stockpiling, but its daily operations may be unfavourable affected by interruption of transportation due to bad weather or other reasons.

Commodity risk
The Group is exposed to commodity risks arising from fluctuations in price of biological assets, primarily timber and bamboo products. Currently there are no financial derivatives or other contracts available in the PRC which the Group can enter into for the purpose of hedging against such risks. However the directors continuously review its outlook for seedlings, bamboo and chinquapin and standing tree prices and consider the need for active financial risk management.

Capital management
The objectives of the Group's capital management are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to support the Group's stability and growth.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or return capital to shareholders. No changes were made in the objectives, policies or processes during the year.

Fair value
In the opinion of the directors, the carrying amounts of the financial assets and liabilities as reported in the consolidated balance sheet approximate their fair value.

The fair value of the Group's biological assets is subject to the fluctuation of timber market prices. The uncommon snow storm in 2008 caused a significant increase in timber harvests and supplies in the local market. The excess of supply over market demand resulted in a drastic decline in timber market prices, and consequently the loss on changes in fair value of biological assets at the end of 2008.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Fair value (Continued)
As the snow storm in 2008 was uncommon and had happened only once in the past 50 years, the management considers the decline in market price was only temporary. The demand for timber products in 2009 has been increasing, and the local market prices have since demonstrated a rising trend.

25. COMMITMENTS – the Group

Capital expenditure commitment

	2008	2007
	EUR	*EUR*
		(Unaudited)
Contracted but not provided net of deposit paid in respect of acquisition of biological assets and factory premises	**3,278,341**	32,932

Commitments under operating leases
As lessee
At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases with lease term of 3 to 11 years, which are payable as follows:

	2008	2007
	EUR	*EUR*
		(Unaudited)
Within one year	**26,033**	18,942
In the second to fifth years inclusive	**116,803**	101,424
Over five years	**99,640**	115,986
	242,476	236,352

As lessor
The Group leases out its factory under operating leases with lease terms of 3 to 20 years and with options to renew upon expiry at new terms. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2008	2007
	EUR	*EUR*
		(Unaudited)
Within one year	**77,577**	-
In the second to fifth years inclusive	**147,013**	-
Over five years	**420,872**	-
	643,462	-

26. FINANCIAL GUARANTEES ISSUED

The Group has issued guarantees in respect of loans to third parties to reimburse certain bankers for losses they might incur as a result of granting banking facilities to these companies to the total extent of EUR207,061 *(2007 unaudited: EUR 185,656)* without charge. The Group has not recognised a value for the financial guarantees given in the financial statements as their fair values as assessed by the directors are insignificant and their transaction price is Nil.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Group under these guarantees. The maximum liability of the Group at the balance sheet date under these guarantees is EUR207,061 *(2007 unaudited: EUR 185,656)*, representing the outstanding amount of the loans to these companies as at the balance sheet date.