

Cathay Forest Products Corp. Update



TORONTO, Jan. 18, 2013 /CNW/ - Cathay Forest Products Corp. (the "Company") today provided an update on its activities since the reconstitution of its board of directors on July 30, 2012.

As previously disclosed, the board of directors of the Company was reconstituted on July 30, 2012, with the support of Canadian shareholders of the Company owning or controlling a significant proportion of its outstanding shares, following a Court process seeking to remove the former directors of the Company. At a special meeting of the shareholders held on July 30, 2012, J. Bruce Barraclough, Peter K. Brown, C. Ian Ross and Michael D. Woollcombe were elected as the directors of the Company.

Upon the board reconstitution, the new board established a special committee consisting of all of the Company's directors for the purpose of assessing the assets and liabilities of the Company and its subsidiaries and considering the alternatives available to responsibly realize maximum possible value for the Company's direct and indirect net assets.

At the time of the board reconstitution, the Company and its Canadian subsidiaries had an aggregate of approximately Cdn. \$780,000 in their Canadian bank accounts. This was before payment of various costs and expenses incurred in relation to the reconstitution of the Company's board and certain liabilities of the Company that were outstanding at the time of the board reconstitution.

Since the board reconstitution, the new board has been working to properly understand the existing assets and liabilities of the Company and to develop and implement, to the extent possible, an orderly disposition of those assets in a manner that generates maximum possible value. The new board's efforts in that regard have been challenged by a number of factors, including the lack of liquidity within the Company and its subsidiaries, the location of the Company's principal indirect assets in the People's Republic of China (the "PRC") and the Russian Federation, the ownership of certain of those indirect assets through joint-venture or other arrangements in which third parties have an interest, the staff turn-over that had previously occurred at the Company and its subsidiaries, the difficulties in accessing available corporate and other records, and the continuing need to manage various legacy issues, claims and liabilities arising from the business and affairs of the Company prior to the board reconstitution.

Based upon its activities to date, the new board believes that it is in the best interests of the Company and all its shareholders and other stakeholders to effect an orderly disposition of all of the Company's direct and indirect assets as expeditiously as reasonably possible while generating the maximum proceeds reasonably attainable, and to use the proceeds received by the Company to satisfy its liabilities with any excess being distributed to the Company's shareholders. The timing of completing such dispositions, the proceeds that will be realized and the amount, if any, that will be available for distribution to the Company's shareholders remains unknown at this time.

Well prior to the reconstitution of the Company's board, the Company's common shares had been suspended from trading by the TSX Venture Exchange (that suspension occurring on or about February 1, 2011), and the Company had been de-listed. Since May 6, 2011, the Company's common shares have also been the subject of cease trade orders by the Ontario Securities Commission. The new board does not contemplate that the shares of the Company will ever be re-listed for trading, nor does the new board believe that attempting to do so, given the financial and other circumstances of the Company, would be feasible or in the best interests of the Company or its shareholders. Instead, as indicated above, the new board is pursuing an orderly disposition of the Company's direct and indirect assets with a view to distributing the net proceeds, after satisfying liabilities, to the Company's shareholders.

In order to reduce costs, the new board previously closed the Company's corporate office located in Richmond Hill, Ontario. Shareholders or other stakeholders who wish to contact the Company should address any enquiries to Bay Adelaide Centre, Suite 910, 333 Bay Street, Toronto, Ontario, M5H 2R2 (telephone: 416-947-1700; fax: 417-947-1256).

Indirect Assets of the Company in the People's Republic of China

At the time of the board reconstitution, the Company's indirect subsidiaries in the PRC had very little cash and were experiencing significant liquidity issues. The new board has been working and continues to work to reduce the cash burn of the Company's local subsidiaries in the PRC, including through reductions in staffing, in an effort to ensure that these subsidiaries are able to meet their liabilities and dispose of their assets in as orderly a fashion as possible.

Based upon the information currently available to the new board, it believes that the principal remaining forestry-related assets indirectly held by the Company in the PRC are its standing timber properties in the provinces of Jiangxi and Henan, both of which continue to be operational. The Jiangxi properties are indirectly wholly-owned by the Company and the properties in Henan are held through a subsidiary, Henan Xinya Cathay Forest Products Co., which is 70% indirectly owned by the Company. The Company is actively seeking to sell its interests in the Jiangxi and Henan properties and considering its alternatives to do so, although at this point the timing of completing any such sale and the proceeds that may be realized remains unknown.

Prior to the reconstitution of the Company's board, the Company's indirect subsidiaries in the PRC had effectively disposed of or relinquished any remaining interest in the Shandong properties and a significant portion of the Jiangsu fast growth poplar plantations and used the proceeds therefrom to satisfy ongoing liabilities in the PRC.

In December 2012, Jiangxi Cathay Forest Co., Ltd., an indirect wholly-owned subsidiary of the Company, entered into a Forest Land

Use Rights Transfer Agreement to dispose of its interest in certain lands that had previously been intended for a fast-growth poplar plantation. Subject to certain closing conditions, which remain to be satisfied, the aggregate consideration that could ultimately be received under this agreement is approximately \$160,000.

Prior to the reconstitution of the Company's board, the Company caused an arbitration in Shanghai to be commenced against the Company's joint venture partner in Guizhou Hangfang Cathay Forestry Company, Limited for amounts that the Company claimed were owed by the joint venture partner. A decision in relation to that arbitration is pending.

Based upon the information currently available to the new board, it appears that, as a result of activities prior to the reconstitution of the Company's board, there are significant amounts owed indirectly to the Company related to Raohe Songlin Economic and Trade Co., Ltd., a domestic PRC entity previously involved in log importing of which the Company indirectly holds a 60% interest. Since the reconstitution of the Company's board, no progress has been made in collecting this receivable and its ultimate collectability remains uncertain. The Company intends to further address matters related to this receivable once its liquidity position allows it to do so.

Indirect Assets of the Company in the Russian Federation

On March 7, 2012, prior to the reconstitution of the Company's board, the Company announced that it had entered into an agreement with Russia Forest Products Group ("RFP"), a Russia-based forestry company, pursuant to which, subject to a number of significant conditions, RFP would acquire a controlling interest in DalEuroLes LLC ("DalEuroLes"). The Company has previously disclosed that it holds a 51% interest in DalEuroLes. The consideration payable to the Company under the proposed transaction, subject to the satisfaction of conditions, included a cash payment of U.S. \$13 million with the Company to own an approximate 30% indirect interest in DalEuroLes once the transaction was complete.

Prior to the reconstitution of the Company's board, the proposed arrangements involving RFP and the Company had broken down and these arrangements were no longer actively being pursued by RFP or the Company. The break-down appears to have resulted from, among other things, disagreements between the Company and the local entity in Russia that holds a 46% interest in and operates DalEuroLes, Finmashineri Co., Ltd. ("Finmashineri"), including in respect of the ownership and control of DalEuroLes. For at least several months prior to the reconstitution of the Company's board, Finmashineri was directing the business and affairs of DalEuroLes, with little or no direction or input from or financial reporting to the Company.

Following the reconstitution of the Company's board, the new board endeavoured to re-enter into discussions with RFP regarding DalEuroLes, to date without success.

Since the reconstitution of the Company's board, the Company has received no financial or other reporting regarding DalEuroLes or the current state of its two standing timber concessions in Kharbarovsk, Russia.

Working within the Company's liquidity constraints, the new board continues to assess strategies to realize the maximum possible value from the Company's prior investment in DalEuroLes, although the amount that will ultimately be realized, if any, and the timing of that realization remains unknown at this time.

Class Action

As set out in the Company's news release of September 12, 2011, the Company and six of its former directors and officers were named as defendants in a proposed class action commenced in the Ontario Superior Court by Mac Killoran. The proposed class action advances a number of claims, primarily relating to financial information disclosed by the Company in 2009 and 2010 that was the subject of the financial restatement announced by the Company in February 2011. In September 2012, the Court allowed the substitution of Kingsley Snelgrove for Mac Killoran as the proposed representative plaintiff and granted leave for the action to proceed against Anthony Ng, who was previously Chief Executive Officer and a director of the Company, and who has not to date responded to the action or appeared in court. The motion by the plaintiff for leave under the *Securities Act* (Ontario) to proceed with the action as against the remaining defendants, including the Company, and for certification of the action as a class action is scheduled to be heard commencing April 17, 2013. The Company is defending the action.

Other

Shortly prior to the reconstitution of the Company's board, the new board was made aware of the existence of certain banking and financial records appearing to show that:

- (a) payments totalling RMB 20 million were previously made by a subsidiary of the Company in the PRC between February 2007 and June 2009, for no apparent legitimate business purpose, to two companies in which a then director of the Company resident outside of Canada appears to have had an interest; and
- (b) on or about January 12, 2010, payments of RMB 2 million were made by a subsidiary of the Company, for no apparent legitimate business purpose, to two corporate customers that had contracted during 2009 to buy timber from a subsidiary of the Company in the PRC, with those payments having been made on or about the same date as those same two corporate customers each made a payment of RMB 2 million to a subsidiary of the Company ostensibly pursuant to the contracts for the sale of timber to those companies.

Since the reconstitution of the Company's board, the new board, with the assistance of counsel, has reviewed information related to these payments and made enquiries of and requested information from the former director referred to above regarding these payments. To date, the former director has refused to provide assistance in obtaining information or documentation related to

the payments, and has denied having received any benefit from such payments. The payments were made while Mr. Ng was the Chief Executive Officer of the Company. After learning of the payments, the Company also previously sought without success to obtain information and documentation from Mr. Ng with respect to the payments.

The new board is considering what actions the Company can and should take in relation to these matters including to seek recovery of the RMB 20 million.

SOURCE: Cathay Forest Products Corp.

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