

HISTORY

Following the supportive policies for the private sector to participate in China's forestry development as announced by the Chinese government in the No. 9 Policy in 2003, Beijing Zhaolin purchased its first forest situated in Gaoshan Village, Maoping Town, Ebian County, Sichuan Province, the PRC of a total area of 79.9 hectares in July 2003. In November 2003, Beijing Zhaolin entered into the first sales agreement for the sales of 850 m³ of logs. We continued to acquire forests over the years. As at 31 December 2006, 2007 and 2008 and 30 June 2009, our total forest area amounted to approximately 4,603 hectares, 12,453 hectares, 171,780 hectares and 171,780 hectares respectively, and our turnover (which was generated only from our sales of logs) amounted to approximately RMB70.1 million, RMB160.3 million, RMB544.9 million and RMB373.2 million respectively. As at 30 June 2009, our forest covered a total of approximately 171,780 hectares.

Beijing Zhaolin was established in August 2001 with a registered capital of RMB10 million. With the registered capital, Beijing Zhaolin started to acquire forest land and apply for all relevant approvals and certificates. Its sales team approached target customers individually and established its customers base gradually. There has been no change in the registered capital of Beijing Zhaolin since its incorporation. At the time of its incorporation, the equity interest of Beijing Zhaolin was held as to 15% by Mr. Cao Jin Fu, 35% by Mr. Wang Bo Hua and the remaining 50% by our chairman, Mr. Li Kwok Cheong. Mr. Cao Jin Fu and Mr. Wang Bo Hua are both Independent Third Parties. Whilst 50% of the equity interest was held by Mr. Cao Jin Fu and Mr. Wang Bo Hua to comply with the then PRC Companies Law which required every limited liability company to have at least two members, all registered capital was contributed by Mr. Li Kwok Cheong from his prior involvement in the tobacco trading and arts investment business. Mr. Li Kwok Cheong was entitled to exercise all voting rights and enjoyed all dividends attributable to the relevant equity interest held by Mr. Cao Jin Fu and Mr. Wang Bo Hua. Mr. Cao Jin Fu and Mr. Wang Bo Hua were not involved in the management and operation of Beijing Zhaolin.

Mr. Cao Jin Fu decided not to hold any interests in Beijing Zhaolin for and on behalf of Mr. Li Kwok Cheong for personal reasons in September 2001. On 3 September 2001, Mr. Wang Bo Hua, for and on behalf of Mr. Li Kwok Cheong, entered into an equity interest transfer agreement to acquire 15% equity interest from Mr. Cao Jin Fu. No consideration was paid in respect of such transfer. Following such transfer, Mr. Li Kwok Cheong remained the ultimate sole owner of all of the equity interest in Beijing Zhaolin.

Mr. Wang Bo Hua decided not to hold any interests in Beijing Zhaolin for and on behalf of Mr. Li Kwok Cheong for personal reasons in December 2005. On 27 December 2005, Mr. Li Kwok Cheong, Mr. Xu Zhong Ping and Mr. Liu Feng Cai entered into an equity interest transfer agreement to acquire 10%, 20% and 20% equity interest respectively from Mr. Wang Bo Hua. No consideration was paid in respect of such transfers. Mr. Xu Zhong Ping and Mr. Liu Feng Cai are both Independent Third Parties and their registered capital in Beijing Zhaolin were contributed by Mr. Li Kwok Cheong. Mr. Li Kwok Cheong was entitled to exercise all voting right and enjoyed all dividends attributable to Mr. Xu Zhong Ping and Mr. Liu Feng Cai. Following such transfers, Mr. Li Kwok Cheong remained the ultimate sole owner of all of the equity interest in Beijing Zhaolin. Neither Mr. Xu Zhong Ping nor Mr. Liu Feng Cai was involved in the operation and management of Beijing Zhaolin.

In 2005, the PRC Companies Law was amended (which amendments came into effect on 1 January 2006) to allow limited liabilities companies to have only one shareholder. Despite

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this, there was no requirement and urgency for Mr. Li Kwok Cheong to take back the equity interest held on trust by Mr. Xu Zhong Ping and Mr. Liu Feng Chai at that time. Until around August 2007, Mr. Xu Zhong Ping and Mr. Liu Feng Cai decided not to hold any interests in Beijing Zhaolin for and on behalf of Mr. Li Kwok Cheong for personal reasons. On 5 August 2007, Mr. Li Kwok Cheong entered into an equity interest transfer to acquire the 40% equity interest from Mr. Xu Zhong Ping and Mr. Liu Feng Cai. No consideration was paid in respect of such transfers. Thereafter, Mr. Li Kwok Cheong was the sole shareholder of Beijing Zhaolin until it was dissolved in September 2008.

According to the written confirmations from Cao Jin Fu, Wang Bo Hua, Liu Feng Cai and Xu Zhong Ping dated 25 June 2008, 22 May 2008, 21 May 2008 and 22 May 2008 respectively, each of them confirmed that their respective capital contribution in relation to the equity interests in Beijing Zhaolin they once held was financed by Mr. Li Kwok Cheong. Each of them further confirmed that he had orally agreed with Mr. Li Kwok Cheong that during the period while he was holding equity interests in Beijing Zhaolin (the “Relevant Period”), (a) he should obtain the consent of Mr. Li Kwok Cheong before exercising his shareholder rights at the shareholders’ meeting of Beijing Zhaolin and act in accordance with the instructions of Mr. Li Kwok Cheong at such meetings; (b) any income or loss arising from the equity interests he held in Beijing Zhaolin should be taken up by Mr. Li Kwok Cheong; and (c) Mr. Li Kwok Cheong was the sole executive director of Beijing Zhaolin. Each of them has also confirmed that he had abided by the above arrangements during the Relevant Period. Our PRC legal advisers have confirmed that the above written confirmations and the arrangements as stated therein are legally valid and binding. During the Track Record Period, all the shareholders’ resolutions of Beijing Zhaolin were unanimously passed by all the shareholders of Beijing Zhaolin.

Our PRC legal advisers have further advised that the establishment and the various transfers of interests in Beijing Zhaolin as described above complied with all applicable laws and regulations in the PRC in effect at such time.

REORGANISATION OF OUR GROUP

In contemplation of the listing of our Shares on the Hong Kong Stock Exchange, our Group underwent the Reorganisation which involved the following major steps:

Incorporation of offshore investment vehicles and our Company

Our Company was incorporated by Kingfly Capital as an exempted company in the Cayman Islands on 21 December 2007 to act as the ultimate holding company of the subsidiaries in our Group.

Sky Famous was incorporated in the BVI on 27 August 2007 with 50,000 authorised shares of nil par value. On 24 December 2007, our Company subscribed for one share in Sky Famous which became our wholly-owned subsidiary.

Rich Fame was incorporated in the BVI on 7 November 2007 with 50,000 authorised shares of nil par value. On 24 December 2007, our Company subscribed for one share in Rich Fame which became our wholly-owned subsidiary.

Profit Wise was incorporated in the BVI on 7 November 2007 with 50,000 authorised shares of nil par value. On 24 December 2007, our Company subscribed for one share in Profit Wise which became our wholly-owned subsidiary.

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On 24 December 2007, Profit Wise acquired one share of HK\$1.00 in the share capital of Ultra Big from Harefield Limited, the first subscriber, at a consideration of HK\$1.00 and Ultra Big became the wholly-owned subsidiary of Profit Wise.

On 24 December 2007, Rich Fame acquired one share of HK\$1.00 in the share capital of Fine Fit from Harefield Limited, the first subscriber, at a consideration of HK\$1.00 and Fine Fit became the wholly-owned subsidiary of Rich Fame.

On 28 December 2007, Sky Famous acquired one share of HK\$1.00 in the share capital of China Zhaoneng from Mr. Li Kwok Cheong at a consideration of HK\$1.00 and China Zhaoneng has since then become a wholly-owned subsidiary of Sky Famous.

Restructuring of our PRC operating subsidiaries

Beijing Zhaolin, the then principal operating company, was established in Beijing and based in Beijing. The principal assets of the Group, which are the forest resources, however are located in Sichuan and Yunnan. For reasons (1) certain banks are reluctant to grant loans to a borrower whose security assets are situated in a different province (2) the Group planned to continue to expand its forest reserve in Yunnan and (3) to better manage the Group's forests and manpower and to facilitate future financing through bank loans, the Group decided to relocate its principal operating company to Yunnan as part of the Reorganisation by setting up a new company in Yunnan.

On 7 March 2008, Kunming Ultra Big was established by Ultra Big as a wholly-foreign owned enterprise in Yunnan, PRC under the laws of the PRC. The registered capital of Kunming Ultra Big is US\$50,000,000 and as at 27 March 2008, US\$22,000,000 has been contributed by its sole shareholder, Ultra Big, in compliance with the PRC laws and the then articles of association of Kunming Ultra. According to the then effective articles of association of Kunming Ultra Big, the balance of US\$28,000,000 should have been contributed within 1 year from the date of issuance of the business licence. Kunming Ultra Big did not contribute the remainder of the registered capital within the time limit specified in the then effective articles of association as the Group did not have sufficient foreign currency at that time. Kunming Ultra Big proposed changes to its articles of association to extend the period for contribution of the remaining registered capital to within 2 years from the date of the issuance of the business licence. On 17 August 2009, the relevant authority granted an approval for such amendment. According to the revised articles of association of Kunming Ultra Big, the balance of the registered capital in the amount of US\$28,000,000 needs only be contributed within 2 years from the date of the issuance of the business licence. Our PRC legal advisers have advised that there should not be any penalties or adverse legal consequences provided that the outstanding registered capital of Kunming Ultra Big is paid up on or before 6 March 2010. As at the Latest Practicable Date, remaining balance of registered capital of Kunming Ultra Big of US\$28,000,000 has been fully contributed by its sole shareholder, Ultra Big, with proceeds from the Second Share Purchase Agreement. As at the Latest Practicable Date, unpaid consideration of Yunnan Wenshan forest amounted to approximately RMB103.4 million, of which RMB65.2 million will be settled with proceeds from the Second Share Purchase Agreement while the remaining RMB38.2 million will be settled with the Group's internal resources.

On 19 March 2008 and 17 April 2008, Kunming Ultra Big entered into a forestry right transfer agreement and a supplemental agreement respectively with Beijing Zhaolin, pursuant to

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which Beijing Zhaolin agreed to transfer all its forestry rights in Sichuan forests to Kunming Ultra Big for a consideration of RMB122,428,723 which was determined on arm's length negotiation and after having taken into account the valuation report prepared by a PRC certified assets valuer in March 2008. In preparation of such valuation report, the PRC certified assets valuer adopted a current forest value basis (現行林價法) and the value of the forest was calculated based on the total area of the forest, the price of the forest at the time Beijing Zhaolin acquired the forest and the amount of timber that Beijing Zhaolin harvested and a certain discount. The consideration was settled in cash in May 2008.

Apart from all the Sichuan forestry rights owned by Beijing Zhaolin, Beijing Zhaolin also transferred to Kunming Ultra Big (1) its rights and obligations under a pre-purchase agreement entered into with an Independent Third Party on 12 December 2007 to acquire forests of approximately 8,667 hectares from that Independent Third Party; and (2) its rights and obligations under all the then effective insurance policies it maintained. On 4 June 2008, Beijing Zhaolin and Kunming Ultra Big entered into agreements, pursuant to which, Kunming Ultra Big agreed to return to Beijing Zhaolin the relevant insurance premium in the amount of RMB14,396,959.62 previously paid by Beijing Zhaolin in respect of the transferred insurance policies, and a prepayment in the amount of RMB5,000,000 under a pre-purchase agreement previously paid by Beijing Zhaolin, the total amount of which was settled on 12 August 2008. As Beijing Zhaolin would be dissolved, Beijing Zhaolin terminated all the employment contracts with its employees in June 2008 and these employees have entered into new employment agreements with Kunming Ultra Big in June 2008. Kunming Ultra Big entered into new sales contracts with the customers of Beijing Zhaolin in March 2008 and Beijing Zhaolin also terminated all the then existing contracts with its customers in April 2008. The employment agreements and the sales agreements of Kunming Ultra Big are substantially the same as those of Beijing Zhaolin which existed immediately before their termination as aforesaid. As at the Latest Practicable Date, our Group has not assumed any contingent liabilities of Beijing Zhaolin.

Our PRC legal advisers have confirmed that the transfer of the Sichuan forestry rights of Beijing Zhaolin has complied with all relevant rules and regulations in the PRC and/or obtained all relevant approvals. The transfer of these Sichuan forestry rights was completed in March 2008 when the new forestry right certificates in relation to the transferred forestry rights were issued to Kunming Ultra Big. Our PRC legal advisers have also advised that our Group will not be subject to any liability (whether it is actual, contingent or otherwise) incurred by Beijing Zhaolin relating to these transferred forestry rights.

On 21 March 2008, Chengdu Yishang was established by Fine Fit as a wholly-foreign owned enterprise in Sichuan, PRC under the laws of the PRC. The registered capital of Chengdu Yishang is US\$29,000,000 and as at 27 March 2008, US\$10,000,000 has been contributed by its sole shareholder, Fine Fit, in compliance with the PRC laws and the then effective articles of association of Chengdu Yishang. According to the then effective articles of association, the second installment of the registered capital in the amount of US\$10,000,000 should have been contributed within 6 months from the date of the issuance of the business licence and the third installment of the registered capital in the amount of US\$9,000,000 should have been contributed within 1 year from the date of the issuance of the business licence. Fine Fit did not contribute the second and third installments of the registered capital within the time limit specified in the then effective articles of association as our Group had not identified any new forest acquisition targets in Sichuan to be acquired by Chengdu Yishang at that time and that the registered capital of Chengdu Yishang can only be used for acquisition

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of new forests. Chengdu Yishang proposed changes to its articles of association to extend the period for contribution of the remaining registered capital to within 2 years from the date of the issuance of the business licence and to amend the then effective articles of association accordingly. On 29 April 2009, the relevant authority granted an approval for such application. According to the revised articles of association of Chengdu Yishang, the balance of the registered capital in the amount of US\$19,000,000 shall be contributed within 2 years from the date of the issuance of the business licence. Our PRC legal advisers have advised that there should not be any penalties or adverse legal consequences provided that the outstanding registered capital of Chengdu Yishang is paid up on or before 20 March 2010. Our Group will settle the remaining balance of the registered capital of Chengdu Yishang as soon as it identifies new forest acquisition targets in Sichuan to be acquired by Chengdu Yishang but in any event no later than 20 March 2010 being the deadline to contribute the remaining balance of the registered capital of Chengdu Yishang pursuant to its revised articles of association. As at the Latest Practicable Date, unpaid registered capital of Chengdu Yishang amounted to approximately US\$19 million, of which US\$10.5 million will be settled by proceeds from the Second Share Purchase Agreement while the remaining US\$8.5 million will be settled with our Group's internal resources. Our Group will continue to closely monitor the legal compliance issue relating to Kunming Ultra Big and Chengdu Yishang and to provide training to the relevant personnel in our Group on the relevant PRC legal requirements.

The Reorganisation was completed in end of March 2008 when the forestry rights previously owned by Beijing Zhaolin were transferred to Kunming Ultra Big and new forestry rights certificates in respect of these forestry rights were issued to Kunming Ultra Big.

Dissolution of Beijing Zhaolin

As all the then business carried on by Beijing Zhaolin were transferred to our Group, Mr. Li Kwok Cheong, as the sole shareholder and director decided to dissolve Beijing Zhaolin.

On 4 September 2008, Beijing Zhaolin was dissolved and deregistered. Our PRC legal advisers advised that during the process of dissolution, the assets (including the retained earnings) of Beijing Zhaolin were required to be distributed to such persons (including its creditors and shareholder) and in such priority as prescribed under the PRC law, and given that our Group was not a creditor or a shareholder of Beijing Zhaolin, it was not entitled to receive any assets of Beijing Zhaolin from such distribution. In connection therewith, a total of approximately RMB173.4 million in cash was distributed to Mr. Li Kwok Cheong (the chairman of our Company and the founder of our Group) as the sole shareholder of Beijing Zhaolin. Although it is possible that upon dissolution of Beijing Zhaolin, the shareholder of Beijing Zhaolin may be required to assume the liabilities of Beijing Zhaolin (the amount of which is limited to the distribution he has obtained from such dissolution), our PRC legal advisers have further advised that such liabilities will not be assumed by the Group or any of its subsidiaries.

The Company confirmed that there is no matter in connection with Beijing Zhaolin that needs to be drawn to the attention of the Hong Kong Stock Exchange.

PRE-IPO INVESTMENTS

(1) FIRST ROUND INVESTMENT BY CARLYLE GROUP

Background of Carlyle Group

The Carlyle Group is one of the world's largest global private equity firms. As at 31 December 2008, it had more than US\$84.5 billion under management in 64 investment funds which are principally engaged in investments across a broad range of sectors.

First Share Purchase Agreement

On 30 December 2007 and 18 March 2008, we entered into the First Share Purchase Agreement and the Accession and Amendment Agreement respectively with the Carlyle Funds. Pursuant to these agreements, the Carlyle Funds subscribed for and acquired the following Shares in phases:-

- (a) acquired 500,000 Shares from Kingfly Capital, a limited liability company incorporated in the BVI and wholly-owned by Mr. Li Kwok Cheong, for an aggregate consideration of HK\$39,005,500 (equivalent to approximately US\$5,000,000); and
- (b) subscribed for an aggregate of 3,500,000 Shares from the Company for an aggregate consideration of HK\$273,038,500 (equivalent to approximately US\$35,000,000).

The total consideration of HK\$312,044,000 for the Shares (the "First Consideration") was determined on arm's length negotiations by taking into account our prospects and Carlyle Funds' future contributions and with reference to a forward looking price to earnings multiple for financial year 2008 prepared in accordance with PRC GAAP and not in compliance with IAS 41. The First Consideration paid by the Carlyle Funds in respect of the First Share Purchase Agreement and the Accession and Amendment Agreement was, after taking into account the Capitalisation Issue, approximately HK\$1.23 per Share.

The First Consideration was settled by payment of equivalent amount in US dollar (i.e. approximately US\$40,000,000) which was paid as to US\$3,000,000 to the Company on 9 January 2008, as to US\$32,000,000 to the Company on 26 March 2008, and as to US\$5,000,000 to Kingfly Capital on 3 January 2008.

Pursuant to the First Share Purchase Agreement, Mr. Xiao Feng was appointed by our Board, upon the recommendation and nomination of the Carlyle Funds as and remains a non-executive Director. After Listing, there is no contractual obligation on us, Kingfly Capital or the Controlling Shareholder to procure the continuous appointment of Mr. Xiao Feng as a non-executive director of the Company. The term of such non-executive Director, as with all other Directors, would, after the Listing, be subject to our Articles of Association, including its retirement provisions.

(2) SECOND ROUND INVESTMENT BY PARTNERS GROUP AND CARLYLE GROUP

Background of Partners Group

Partners Group is one of the world's leading global private equity firms. As at 31 December 2008, it had more than US\$22 billion under management. It invests across a broad range of sectors and assets.

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Second Share Purchase Agreement

On 25 June 2009, we entered into the Second Share Purchase Agreement with the Partners Group Funds and the Carlyle Funds. Pursuant to the Second Share Purchase Agreement, the Partners Group Funds subscribed for and acquired the following Shares:-

- (a) acquired 144,928 Shares from Kingfly Capital, a limited liability company incorporated in the BVI and wholly-owned by Mr. Li Kwok Cheong, for an aggregate consideration of US\$1,666,672;
- (b) acquired 86,956 Shares from Top Wisdom, a limited liability company incorporated in the BVI and wholly-owned by Mr. Li Han Chun, for an aggregate consideration of US\$999,994; and
- (c) subscribed for an aggregate of 2,376,812 new Shares from the Company for an aggregate consideration of US\$27,333,338.

Pursuant to the Second Share Purchase Agreement, the Carlyle Funds further subscribed for and acquired the following Shares:-

- (a) acquired 72,464 Shares from Kingfly Capital, a limited liability company incorporated in the BVI and wholly-owned by Mr. Li Kwok Cheong, for an aggregate consideration of US\$833,336;
- (b) acquired 43,478 Shares from Top Wisdom, a limited liability company incorporated in the BVI and wholly-owned by Mr. Li Han Chun, for an aggregate consideration of US\$499,997; and
- (c) subscribed for an aggregate of 1,188,405 new Shares from the Company for an aggregate consideration of US\$13,666,657.5.

The total consideration of US\$44,999,994.5 for the Shares (the "Second Consideration") was determined on arm's length negotiations by taking into account our prospects and Carlyle Funds' and Partners Group Funds' future contributions and efforts to assist the Company with improvement of its corporate governance structure and recruitment of talents and development of international and domestic markets, and with reference to a forward looking price to earnings multiple for financial year 2009 prepared in accordance with PRC GAAP and not in compliance with IAS 41. The Second Consideration paid by the Carlyle Funds and the Partners Group Funds in respect of the Second Share Purchase Agreement was, after taking into account the Capitalisation Issue, approximately HK\$1.42 per Share.

The Second Consideration was settled by payment of equivalent amount in US dollar which was paid on 30 June 2009, as to US\$40,999,995.5 to the Company, as to US\$2,500,008 to Kingfly Capital and as to US\$1,499,991 to Top Wisdom.

We entered into the First Share Purchase Agreement and the Second Share Purchase Agreement because our Directors believe that the investments by Carlyle Funds and Partners Group Funds would enhance our corporate image and we needed funds to finance the acquisition of Sichuan forestry rights from Beijing Zhaolin as part of the Reorganisation and to acquire new forests in Yunnan.

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Immediately after the Capitalisation Issue and the Global Offering, the Carlyle Funds will hold the following Shares and become a substantial Shareholder and connected person of our Company:-

	Number of Shares	Assuming the Over-allotment is not exercised	Assuming the Over-allotment is exercised in full
CAGP	322,650,000	10.75%	10.37%
CAGP Coinvestment	12,825,000	0.42%	0.41%
Total	<u>335,475,000</u>	<u>11.18%</u>	<u>10.78%</u>

Our Group has not entered and does not expect to enter into any connected transaction with the Carlyle Funds after Listing. The effective price per Share held by the Carlyle Funds was approximately HK\$1.28 per Share.

Immediately after the Capitalisation Issue and the Global Offering, the Partners Group Funds will hold the following Shares:-

	Number of Shares	Assuming the Over-allotment is not exercised	Assuming the Over-allotment is exercised in full
Partners Group Access	143,100,000	4.77%	4.60%
International Fund on account of IFM-Invest:			
2 PrivateEquity	<u>22,050,000</u>	<u>0.74%</u>	<u>0.71%</u>
Total	<u>165,150,000</u>	<u>5.51%</u>	<u>5.31%</u>

The effective price per Share held by the Partners Group Funds was approximately HK\$1.42 per Share.

Second Shareholders' Agreement

On 25 June 2009, we entered into the Second Shareholders' Agreement with the Carlyle Funds and the Partners Group Funds which replaced and superseded the First Shareholders' Agreement, to, among other things, regulate their respective rights and obligations as shareholders of the Company. Pursuant to the Second Shareholders' Agreement, except the right to recommend and nominate a director to our Board which was granted only to the Carlyle Funds, the Partners Group Funds were granted certain special rights same as the Carlyle Funds (including general information rights, pre-emptive rights, co-sale rights, put right, anti-dilution protection and share adjustment). The Partners Group Funds were also granted the right to appoint a non-voting observer to attend all board meetings of the Company. All such special rights (except share adjustment as mentioned below) as provided under the Second Shareholders' Agreement shall lapse upon Listing.

The major terms of the Second Shareholders' Agreement are summarized as follows: -

Put Right

Upon the occurrence of a put trigger event at any time after the occurrence of the earlier of (i) the fourth (4th) anniversary of the date of the Second Share Purchase Agreement, or

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(ii) material breach of the Second Shareholders Agreement, the First Share Purchase Agreement and the Second Share Purchase Agreement by any member of our Group, Mr. Li Kwok Cheong, Kingfly Capital, Mr. Li Han Chun, Top Wisdom, Mr. Huang Fan or Victory Early, each of the Carlyle Funds and the Partners Group Funds has the right to require Mr. Li Kwok Cheong to purchase all Shares each of them purchased pursuant to the respective share purchase agreement at an aggregate purchase price equal to the aggregate purchase price paid for the Shares under such share purchase agreement plus an amount accruing on such amount at an annual interest rate of 10%, compounded annually, starting from the date of the payment thereof until the date of the payment of the amount in full.

Anti-dilution Protection

If the Company issues any new Shares without consideration or for a per share issue price less than the per share purchase price paid by the Carlyle Funds or the Partners Group Funds pursuant to the First Share Purchase Agreement and/or the Second Share Purchase Agreement, then the Company shall, compensate the Carlyle Funds and/or the Partners Group Funds by issuing additional shares to the Carlyle Funds and/or the Partners Group Funds, currently with such issuance of new shares.

Share Adjustment

If the aggregate value of the Shares purchased by the Carlyle Funds pursuant to the First Share Purchase Agreement or by the Carlyle Funds and the Partners Group Funds under the Second Share Purchase Agreement respectively, valued at the Offer Price and on a fully diluted basis after giving effect to the consummation of the Listing, is lower than 125% of the aggregate consideration paid by the Carlyle Funds under the First Share Purchase Agreement or by the Carlyle Funds and the Partners Group Funds under the Second Share Purchase Agreement respectively, Mr. Li Kwok Cheong shall, within three (3) business days after the expiry of the first six-month period starting from the Listing Date, transfer to the Carlyle Funds or the Carlyle Funds and the Partners Group Funds (as the case may be), for an aggregate consideration of US\$1.00, such number of Shares beneficially owned by Mr. Li Kwok Cheong, so that upon such transfer, the Carlyle Funds, together with the Shares purchased by them pursuant to the First Share Purchase Agreement or the Carlyle Funds and the Partners Group Funds, together with the Shares purchased by them pursuant to the Second Share Purchase Agreement (as the case may be) have, valued at the Offer Price and on a fully diluted basis after giving effect to the consummation of the Listing, an aggregate value of Shares equal to 125% of the aggregate consideration paid by the Carlyle Funds pursuant to the First Share Purchase Agreement or by the Carlyle Funds and the Partners Group Funds pursuant to the Second Share Purchase Agreement (as the case may be).

In the event that the Offer Price is lower than HK\$1.78 per Share, being 125% of the per Share consideration paid by the Carlyle Funds and the Partners Group Funds pursuant to the Second Share Purchase Agreement after taking into account the Capitalisation Issue, the aforementioned share adjustment mechanism will be effected. Assuming the Offer Price is finally determined at HK\$1.60, being the lowest end of the indicative range of the Offer Price, Mr. Li Kwok Cheong will transfer an aggregate of 8,912,380 Shares to the Carlyle Funds and an aggregate of 17,662,525 Shares to the Partners Group Funds, so that upon such transfer, the Carlyle Funds and the Partners Group Funds, together with the Shares purchased by them pursuant to the Second Share Purchase Agreement have, valued at HK\$1.60 per Share, an aggregate value of Shares equal to 125% of the aggregate consideration paid by them

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pursuant to the Second Share Purchase Agreement. At the completion of such share transfer, assuming the Over-allotment Option was not exercised, Kingfly Capital, Mr. Li Kwok Cheong, the Carlyle Funds and the Partners Group Funds would be interested in approximately 50.28%, 50.28%, 11.48% and 6.09% of the issued Share Capital of our Company, respectively, and Kingfly Capital and Mr. Li Kwok Cheong would remain controlling shareholders of our Company.

As the lowest end of the indicative range of Offer Price, i.e. HK\$1.60, is higher than 125% of the per Share consideration paid by the Carlyle Funds pursuant to the First Share Purchase Agreement, i.e. HK\$1.23, the aforementioned share adjustment mechanism will not be effected for the First Share Purchase Agreement.

There is no contractual provision limiting the maximum number of Shares which would be transferred from Mr. Li Kwok Cheong to the Carlyle Funds and/or the Partners Group Fund in the relevant investment agreements. However, such transfer of Shares from Mr. Li Kwok Cheong to Carlyle Funds and the Partners Group Funds (as the case may be) after the expiry of the first six-month period from Listing will not affect the Company's compliance with Rule 10.07(1)(b) and 8.08(1)(a) of the Hong Kong Listing Rules.

All of these terms (except the share adjustment) shall lapse upon the Listing. As at the Latest Practicable Date, neither the Carlyle Funds nor the Partners Group Funds has exercised any special rights under any of the First Share Purchase Agreement, the First Shareholders' Agreement, the Accession and Amendment Agreement, the Second Amendment Agreement, the Second Share Purchase Agreement or the Second Shareholders' Agreement.

Pursuant to the Second Shareholders' Agreement, the Carlyle Funds and the Partners Group Funds have agreed that they will use their best efforts to assist the Company with (i) improvement of its corporate governance structure and recruitment of talents; and (ii) development of international and domestic markets. Each of the Carlyle Funds and the Partners Group Funds has confirmed that as at the Latest Practicable Date, they and their affiliates (as defined in the Share Purchase Agreement), except for those which they do not have control or knowledge of their investment (including (i) any fund of fund investment, (ii) any hedge fund investment in publicly traded securities and (iii) any investment by an affiliate of Partners Group Access or International Fund on account of IFM-Invest: 2 PrivateEquity, in which it does not have control), did not have any interest in any other companies engaging in the business of developing forestry resources in the PRC. Each of the Carlyle Funds and the Partners Group Funds has also undertaken that, for so long as they hold more than 5% of the Company's issued Shares or they have a representative on the Board, they and their affiliates (as defined in the Share Purchase Agreement) will not, without our prior written consent, invest, directly or indirectly, in any other companies engaging in the business of developing forestry resources in the PRC, provided however, the above restriction shall not apply to (i) any fund of fund investment, (ii) any hedge fund investment in publicly traded securities and (iii) any investment by an affiliate of Partners Group Access or International Fund on account of IFM-Invest: 2 PrivateEquity, in which it does not have control. Such obligations to assist the Company and the undertaking not to invest in companies engaging in business of developing forestry resources in the PRC as set out above shall lapse upon the Listing.

Apart from being an institutional investor of the Company and save as disclosed, the Carlyle Funds and the Partners Group Funds had no role in our Group nor influence or control over the management and operation of our Group during the three years ended 31 December 2008 and six months ended 30 June 2009. In addition, the director nominated by the Carlyle

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Funds to the board of directors of our Company is only a non-executive director, the Carlyle Funds will not have any influence or control over the management and operation of our Group going forward.

Use of Proceeds of the First Round Investment by the Carlyle Funds

The proceeds of the investment by the Carlyle Funds pursuant to the First Share Purchase Agreement has been applied as to approximately US\$3,000,000 (representing approximately 8.6% of the proceeds) for settling part of the professional fee relating to the Global Offering, as to approximately US\$17,400,000 (representing approximately 49.7% of the proceeds) for acquisition of Sichuan forestry rights from Beijing Zhaolin as part of the Reorganisation, as to approximately US\$4,600,000 (representing approximately 13.1% of the proceeds) for acquisition of Yunnan Luxi/Shuangjiang Forest in Yunnan by Kunming Ultra Big and as to approximately US\$10,000,000 (representing approximately 28.6% of the proceeds) as working capital of Chengdu Yishang.

Use of Proceeds of the Second Round Investment by the Carlyle Funds and the Partners Group Funds

The proceeds of the investment by the Carlyle Funds and the Partners Group Funds pursuant to the Second Share Purchase Agreement have been applied as to US\$28,000,000 (representing approximately 68.3% of the proceeds) for contributing to the remaining balance of the registered capital of Kunming Ultra Big to settle part of the total consideration for acquisition of Yunnan Wenshan Forest in Yunnan by Kunming Ultra Big. The remaining balance of the proceeds will be applied as to approximately US\$2,500,000 (representing 6.1% of the proceeds) for settling part of the professional fees relating to the Global Offering, and as to approximately US\$10,500,000 (representing approximately 25.6% of the proceeds) for contributing to part of the remaining balance of the registered capital of Chengdu Yishang. The balance of the total consideration for the acquisition of the Yunnan Wenshan Forest and the balance of the remaining part of the registered capital of Chengdu Yishang will be funded by the Group's internal financial resources and the proceeds from the Second Round Investment.

Undertakings from Carlyle Funds and Partners Group Funds

Each of the Carlyle Funds and the Partners Group Funds has undertaken to the Joint Global Coordinators (acting on behalf of themselves and the Underwriters) and the Company that at any time during the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date: (1) they shall not without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and the Company, directly or indirectly, and shall procure that none of their associates or companies controlled by them or any nominee or trustee holding in trust for them shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over, or by entering into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition of effective economic disposition due to cash settlement or otherwise)) any of the Shares in respect of which they are shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares or such securities and subject always to compliance with the provisions of the Hong Kong Listing Rules; and (2) in the event of a disposal by them of any of such Shares or any interest therein as may be permitted by the Joint Global Coordinators and the Company and in compliance with the Hong

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Kong Listing Rules, they will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of our Company or any interest therein. The Joint Global Coordinators and the Company will consider, among other matters, the impact of the possible disposal of Shares on the share performance of the Company upon the release and the then market condition, before giving consent to release their lock-up undertakings.

OTHER TRANSFER

On 31 March 2008, Kingfly Capital sold 3,200,000 Shares which represented 10% of the then issued share capital of our Company to Mr. Li Han Chun for a consideration of US\$32,000,000 and 320,000 Shares which represented 1% of the then issued share capital of our Company to Mr. Huang Fan for a consideration of US\$3,200,000. The consideration paid by each of Mr. Li Han Chun and Mr. Huang Fan took into account the consideration paid by the Carlyle Funds under the First Share Purchase Agreement when the Carlyle Funds invested in us, details of which are set out under “History, Reorganisation and Corporate Structure — Pre-IPO Investments — First Round Investment by Carlyle Group — First Share Purchase Agreement”.

Mr. Li Kwok Cheong had invited both Mr. Li Han Chun and Mr. Huang Fan to invest in Beijing Zhaolin at the time they joined Beijing Zhaolin. However, due to the uncertainty of the investment risks, Mr. Li Han Chun and Mr. Huang Fan only agreed to invest in the company at a later stage when the business became more mature.

Mr. Li Han Chun joined Beijing Zhaolin as a general manager in January 2004. He was responsible for the management of the daily operation of Beijing Zhaolin during the Track Record Period. He was responsible for identifying new forest land and making decisions for acquisition, liaising and negotiating with the potential vendors, formulating policies in connection with sales of timber and identifying and making decisions on areas of research to be conducted by us. Mr. Li Han Chun has been a director of Kunming Ultra Big since its establishment on 7 March 2008 and is the chief executive officer of our Group and an executive Director. Please refer to the section headed “Directors, Senior Management and Employees” for Mr. Li Han Chun’s background, professional qualification, expertise and experience in the forestry industry. Mr. Li Han Chun agreed to pay Kingfly Capital (or such person as Kingfly Capital would direct) US\$32,000,000 for the purchase of 3,200,000 Shares as stated above. The first instalment of US\$2,000,000 (approximately RMB14,020,000) was settled on 31 March 2008 with monies he earned from the sale of certain technology rights to a company in 1999 and 2000. The balance of US\$30,000,000 will be settled by eight equal instalments on the 31st day of December every year starting from year 2010. As security for the continuing obligation to pay the balance of US\$30,000,000 to Kingfly Capital, Mr. Li Han Chun, through a company wholly owned by him, has agreed to charge an aggregate of 75,000,023 Shares (which include Shares it will receive under the Capitalisation Issue) in favour of Kingfly Capital.

Mr. Huang Fan joined Beijing Zhaolin in 2005 as vice chairman. He was also appointed as a Director of the Company in December 2007. As Mr. Huang Fan decided to pursue his personal business, he resigned from Beijing Zhaolin and the Company in March 2008. The Company confirmed that there is no matter pertaining to the resignation of Mr. Huang Fan that needs to be drawn to the attention of the Hong Kong Stock Exchange. Prior to joining Beijing Zhaolin, Mr. Huang had no experience in the forestry industry. Mr. Huang Fan assisted Mr. Li

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Kwok Cheong in respect of the Group's public relationship and regulatory-related matters during his service for our Group, and he did not maintain an office at the premises of the Group or needed to work on regular hours. The Group and Mr. Huang agreed commercially that no remuneration would be paid during his service. We understand from Mr. Huang Fan that he decided to invest in the Company as he believed China's forestry industry had a good prospect. Mr. Huang Fan also advised that he had, in around May 2008, fully settled the consideration of US\$3,200,000 in Renminbi by his own savings and a loan from his friend. Apart from being a passive investor, Mr. Huang has ceased to hold any position in the Group.

Mr. Li Han Chun and Mr. Huang Fan were not and will not be granted any special rights before and after the Listing Date.

Lock-Up Undertaking

Each of our Controlling Shareholders, Top Wisdom, Mr. Li Han Chun, Mr. Huang Fan and Victory Early has undertaken to the Joint Global Coordinators (acting on behalf of themselves and the Underwriters) and the Company that:

- (1) it/he will, and will procure that its/his associates will, comply with all the applicable restrictions and requirements under the Hong Kong Listing Rules on the disposal by it/him or by any registered holder on its/his behalf, of any Shares or other securities of our Company in respect of which it/he is, or is shown in this prospectus to be the beneficial owner (directly or indirectly);
- (2) save in connection with the Stock Borrowing Agreement and other than disclosed in this prospectus, neither it/he nor any of its/his respective associates or companies controlled by it/him has any present intention of disposing of any Shares or other securities of our Company in respect of which it/he is, or is shown in this prospectus to be, the beneficial owner (or any beneficial interest therein);
- (3) at any time during the period commencing on the date of the Prospectus and ending on the date which is twelve months from the Listing Date (the "Lock-up Period"), save in connection with the Stock Borrowing Agreement and other than disclosed in this prospectus, and subject always to the provisions of the Hong Kong Listing Rules, it/he shall not, without the prior written consent of the Joint Global Coordinators (each for itself and together, on behalf of the Hong Kong Underwriters) directly or indirectly, and shall procure that none of its/his associates or companies controlled by it/him or any nominee or trustee holding in trust for it/him shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any charges, pledges or encumbrances or other third party rights over), or announce any intention to dispose of, any of the share capital or any other securities of the Company (including any interest in a company which, directly or indirectly, holds any such share capital or other securities of the Company) which are of the same class as, or convertible into or exchangeable for, or which carry a right to subscribe, purchase or acquire, or represent the right to receive, any such Shares or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Shares, in respect of which it/he is the beneficial owner (directly or indirectly) and/or which are registered in its/his name;

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- (4) it/he will take all reasonable steps to ensure that any disposal of Shares after the Lock-up Period does not create a disorderly or false market for the Shares;
- (5) to the extent that the charge over the Shares held by Top Wisdom as described in this prospectus are released within the Lock-up Period, this undertaking shall also apply to those Shares; and
- (6) in respect of Mr. Li Kwok Cheong, Mr. Li Han Chun and Mr. Huang Fan, each of them will not, directly or indirectly, dispose, charge or encumber any or all of their shareholding interests in Kingfly Capital, Top Wisdom and Victory Early, respectively, during the Lock-up Period.

The Joint Global Coordinators and the Company will consider, among other matters, the impact of the possible disposal of Shares on the share performance of the Company upon the release and the then market condition, before giving consent to release their lock-up undertakings.

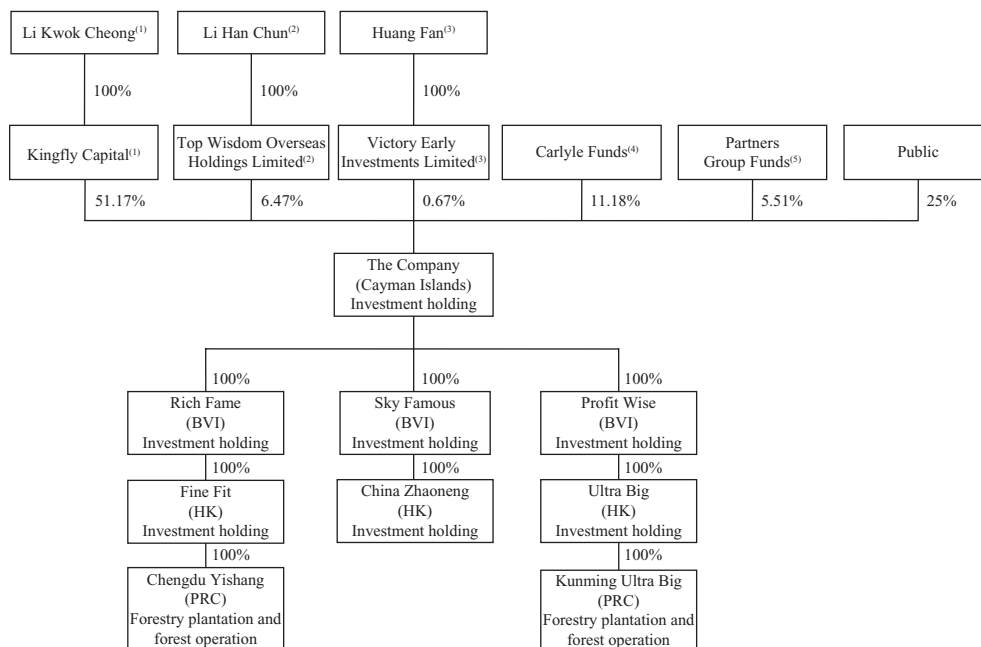
Registration under SAFE Circular 75

Our PRC legal advisers, Commerce & Finance Law Offices, have advised that both Mr. Li Han Chun and Mr. Huang Fan, being the relevant beneficial shareholders of our Group, who are PRC nationals, have completed their foreign exchange registration of overseas investments at the Yunnan Branch of SAFE, and that the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration on Domestic Residents to Engage in Financing and Return Investment via Overseas Special Purpose Companies (known as “SAFE Circular 75”) has been complied with. Our PRC legal advisers further advised that the SAFE Circular 75 requires only the shareholders of the Company who are PRC resident, but not the Company, to make the foreign exchange registration.

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Corporate and Shareholding Structure

The chart below illustrates our corporate and shareholding structure immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised:



Notes:

- (1) Mr. Li Kwok Cheong is our executive Director and chairman and the sole shareholder of Kingfly Capital. The Shares held by Kingfly Capital are not counted as public shares.
- (2) Mr. Li Han Chun is our executive Director and the sole shareholder of Top Wisdom. The Shares held by Top Wisdom are not counted as public shares.
- (3) Mr. Huang Fan was a former director of our Company and the sole shareholder of Victory Early. The Shares held by Victory Early are not counted as public shares.
- (4) The Carlyle Funds, being part of the Carlyle Group, an international private equity firm, are institutional investors in our Company. Immediately after the Capitalisation Issue and the Global Offering, the Carlyle Funds, being a substantial Shareholder, will become a connected person of our Company. Our Group has not entered and does not expect to enter into any connected transaction with the Carlyle Funds after Listing. The Shares held by the Carlyle Funds are not counted as public shares.
- (5) The Partners Group Funds, which are advised by Partners Group AG, an international private equity firm, are institutional investors in our Company. The Shares held by the Partners Group Funds are counted as public shares.