大自然地板
Nature

China Flooring Holding Company Limited

中國地板控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 2083

ANNUAL REPORT 2011

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Se Hok Pan *(Chairman and President)*
Ms. Un Son I
Mr. She Jian Bin
Mr. Chow Chi Keung Savio

Non-executive Directors

Mr. Homer Sun
Mr. Eddy Huang

Independent non-executive Directors

Professor Li Kwok Cheung, Arthur
Mr. Zhang Sen Lin
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Audit Committee

Mr. Chan Siu Wing, Raymond *(Chairman)*
Mr. Zhang Sen Lin
Mr. Ho King Fung, Eric

Remuneration Committee

Professor Li Kwok Cheung, Arthur *(Chairman)*
Mr. Zhang Sen Lin
Mr. Ho King Fung, Eric

Nomination Committee

Mr. Se Hok Pan *(Chairman)*
Mr. Chan Siu Wing, Raymond
Mr. Ho King Fung, Eric

Corporate Governance Committee

Mr. Se Hok Pan *(Chairman)*
Mr. Ho King Fung, Eric

Executive Committee

Mr. Se Hok Pan *(Chairman)*
Ms. Un Son I

Company Secretary

Mr. Teoh Chun Ming

Authorised Representatives

Mr. Se Hok Pan
Mr. Teoh Chun Ming

Auditors

KPMG

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China
Standard Chartered Bank (Hong Kong) Limited

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Information (Continued)

Principal Place of Business in Hong Kong

Unit 3401, 34/F.
West Tower, Shun Tak Centre
Nos. 168–200 Connaught Road Central
Hong Kong

Head Office in the PRC

8 Longpan West Road
New District
Daliang, Shunde
Foshan City
Guangdong Province
PRC

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Compliance Advisor

Guangdong Securities Limited
Units 2505–06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Website

www.china-flooring.com.hk

Stock Code

2083

Management Discussion and Analysis

Business Review

From the third quarter of the year ended 31 December 2011 ("the reporting period"), the Group began to face continuous economic and market challenges at local and overseas market. Domestically, the Chinese government maintained its regulation policy on the real estate market. Although temporary fluctuations in housing prices did not have substantial influence over the flooring and furniture industry, the decrease of trading volume in the real estate market and intensifying competition in the domestic flooring industry posed considerable challenges to the Group in the past year. Internationally, the ongoing European debt crisis increased the uncertainty of the global economy. In spite of these challenges, the Group still secured a steady growth in total sales volume of our major products during the reporting period by constantly adjusting business strategies and adapting to the industry's changing trends and competitive situations.

1. The flooring business

The Group adjusts its product mix as the market demand changes. Its flooring products are mainly laminated flooring, solid wood flooring and solid wood engineered flooring. For the year ended 31 December 2011, the Group posted a total of 23,839,000 sq. m. of the above major flooring products, versus 22,335,000 sq. m. for the year ended 31 December 2010, representing a year-over-year growth of 6.7%.

In respect of manufacturing, the Group's authorized manufacturing operations have achieved stable returns, with the earnings from trademark and distribution network usage fees accounting for 13.4% of the Group's total revenue, versus 12.4% for the year ended 31 December 2010.

In respect of its flooring store network, the Group had a total of 3,202 flooring stores as of 31 December 2011 versus 2,901 as of 31 December 2010, showing steady growth. Of the total number of stores, there were 2,038 "Nature" stores (versus 1,853 as of 31 December 2010), 1,001 "Nature • No. 1 My Space" stores (versus 958 as of 31 December 2010), and 163 "Nature • Aesthetics" stores (versus 90 as of 31 December 2010).

2. The businesses of wooden doors and wardrobes

The business of wooden doors and wardrobes is a prioritized business of the Group. By leveraging the brand recognition of "Nature", the Group created the two brands of "Nature Desenberg" and "Nature Vanessa" to further tap into this business.

In respect of wooden doors, a subsidiary of the Group entered into a joint venture agreement with Guangdong Guangxin PACO Technology Co., Ltd in July 2011 to specialize in the R&D, manufacturing and sales of wooden doors and other wooden products. The joint venture, which had already been put into operation and production prior to 31 December 2011, laid an excellent foundation for the Group to expand in the wooden door market. Meanwhile, the Group established a wholly owned subsidiary in Taizhou of Jiangsu in December 2011 and planned to open a wooden door plant equipped with advanced manufacturing processes, which is expected to be put into production in late 2012. The Group has planned to establish wholly owned subsidiaries in Xuzhou of Jiangsu to manufacture wooden doors products in leased plants. As of 31 December 2011, the Group had opened 95 wooden door stores. In respect of wardrobes, the Group has planned to establish wholly owned subsidiaries in Nanhai of Guangdong to manufacture wardrobe products in leased plants. As of 31 December 2011, the Group had opened 45 wardrobe stores.

3. Forest resources business

The Group acquired 3,718 hectares of forest assets located in Yingjiang County of Yunnan Province in late 2011 for a consideration of RMB38,640,000. As of 31 December 2011, the Group owned the land use rights and forestry concessions of 8,163 hectares of forest assets in Yunnan Province in China and of 46,347 hectares of forest assets in Loreto Province in Peru. These forests contain several species of trees which are used in premium solid wood flooring products. The commercial logging of our forests in Peru and Yunnan is progressing smoothly. These acquisitions of forest resources help ensure a more stable supply of high-quality timber for our authorized manufacturers in connection with the manufacturing of our branded solid wood flooring products, through which we hope to reinforce the loyalty of our authorized manufacturers and assure that we receive stable fees from them.

Financial Review

Revenue

We generate revenue from three business segments: (1) manufacturing and sale of wood products, (2) trademark and distribution network usage fees; and (3) trading of timber and wood products.

Revenue from manufacturing and sale of wood products represent the revenue generated in the course of sales activities of laminated flooring, engineered flooring and other wood products we manufacture at our own factories and is measured at the fair value of the consideration received or receivable, net of returns and trade discounts.

Revenue from trademark and distribution network usage fees is the fees for which we charged to authorized manufacturers in accordance with the terms of the relevant agreements with reference to the production output and sales volume of our branded flooring products.

Revenue from trading of timber products represent the revenue generated primarily from our branded wood products trading to customers in oversea markets and timber trading to various customers, including our authorized manufacturers and other wood products manufacturers.

The following table sets forth the revenue recorded by each business segments for the years indicated.

	Year ended 31 December		
	2011	2010	Growth rate
	RMB'000	RMB'000	%
Revenue			
Manufacturing and sale of wood products	**1,125,607**	1,088,766	3.4%
Trademark and distribution network usage fees	**209,284**	202,066	3.6%
Trading of timber and wood products	**226,094**	333,076	(32.1%)
Total	**1,560,985**	1,623,908	(3.9%)

For the year ended 31 December 2011, the Group recorded a revenue of approximately RMB1,560,985,000 representing a decrease of 3.9% as compared with approximately RMB1,623,908,000 recorded in 2010.

During the year, the revenue from manufacturing and sale of wood products increased by 3.4% and the revenue from trademark and distribution network usage fees increased by 3.6%. They were mainly attributable to the increase in consumer demand for our branded flooring products, the addition of authorized manufacturers, the expansion of our distribution network, the increase in our product line to wooden door and wardrobes and the enhancement of our brand recognition. Trading of timber and wood products decreased by 32.1% mainly due to the reduction in sales volume of low-margin timber trading during the year.

Cost of Sales

Cost of sales for manufacturing and sale of wood products consists primarily of raw materials costs, staff costs and overhead costs. The major raw materials used in our own manufacturing activities are timber, veneers, fiberboards and plywood. Labor costs consist of salaries, wages and other benefits we paid to our production staff. Overhead costs primarily include utilities, depreciation and others.

Cost of sales for trademark and distribution network usage fees consists primarily of the labour costs and travelling expenses relating to our representatives who provide authorized manufacturers with on- site technical and logistics support and conduct quality control measures on their products.

Cost of sales for trading of timber and wood products consists primarily of the cost of timber and wood products purchased for trading.

Set forth below are the cost of sales by each business segments for the years indicated:

	Year ended 31 December		
	2011	2010	Growth rate
	RMB'000	RMB'000	%
Cost of Sales			
Manufacturing and sale of wood products	**845,701**	821,013	3.0%
Trademark and distribution network usage fees	**5,139**	2,726	88.5%
Trading of timber and wood products	**194,269**	292,466	(33.6%)
Total	**1,045,109**	1,116,205	(6.4%)

Gross Profit and Gross Profit Margin

Gross profit is calculated by revenue less cost of sales.

The tables below shows the gross profit and gross profit margin by each business segments during the years as indicated:

	Year ended 31 December		
	2011	2010	Growth rate
	RMB'000	RMB'000	%
Gross Profit			
Manufacturing and sale of wood products	**279,906**	267,753	4.5%
Trademark and distribution network usage fees	**204,145**	199,340	2.4%
Trading of timber and wood products	**31,825**	40,610	(21.6%)
Total	**515,876**	507,703	1.6%

	Year ended 31 December	
	2011	2010
	%	%
Gross Profit Margin		
Manufacture and sale of wood products	**24.9**	24.6
Trademark and distribution network usage fees	**97.5**	98.7
Trading of timber and wood products	**14.1**	12.2
Total	**33.0**	31.3

For the year ended 31 December 2011, the overall gross profit increased by approximately RMB8,173,000 or 1.6% to approximately RMB515,876,000 from approximately RMB507,703,000 and the gross profit margin also increased to 33.0% from 31.3% in 2010. The increase in overall gross profit and gross profit margin was primarily reflecting the increase in sales volume and the increased share of the manufacture and sale of wood products and trademark and distribution network usage fee segment which has a higher gross profit margin than other segments.

During the year, manufacturing and sale of wood products contributed a gross profit of approximately RMB279,906,000, representing an increase of approximately RMB12,153,000 or 4.5% from approximately RMB267,753,000 in 2010. The increase was mainly due to the increase in gross profit margin to 24.9% from 24.6% in 2010, which was mainly attributable to the rise in selling prices of flooring products and the effective cost control for the manufacturing of the flooring products.

During the year, trademark and distribution network usage fees contributed a gross profit of approximately RMB204,145,000, representing an increase of approximately RMB4,805,000 or 2.4% from approximately RMB199,340,000 in 2010. The increase was mainly due to the increase in sales volume resulted from more trademark and distribution network usage fees received from additional authorized manufacturers in production of laminated flooring products.

During the year, trading of timber and wood products contributed a gross profit of approximately RMB31,825,000 represented a decrease of approximately RMB8,785,000 or 21.6% from approximately RMB40,610,000. The decrease was mainly due to the reduction in sales volume of low-margin timber trading during the year.

Net change in fair value of biological assets

Net change in fair value of biological assets is recorded in connection of our forest assets. Net change in fair value of biological assets of approximately RMB92,707,000 in current year is represented by the increase in fair value of our forest assets based on the market valuation conducted by Poyry (Beijing) Consulting Co. Ltd, a forestry consultant.

Other Income and Gains

Other income and gains consist primarily of government grants which are subject to the discretion of the relevant authorities.

Distribution Costs

Distribution costs consist primarily of advertising and promotion expenses, transportation fees, salaries, wages and other benefits, travelling expenses and other miscellaneous expenses.

Distribution costs in 2011 were approximately RMB162,511,000, representing an increase of approximately RMB66,713,000 or 69.6% from approximately RMB95,798,000 in 2010. The increase in distribution costs was primarily due to an increase in advertising costs for the promotion of our branded flooring products and an increase in transportation costs for the engagement of China Merchants Logistics to deliver our branded products manufactured by our self-owned factories and authorized manufacturers since May 2010.

Administrative Expenses

Administrative expenses consist of primarily of salaries, wages and other benefits for the administrative staff, audit fee, consulting fee, depreciation, provision for the bad debt of trade receivables, office expenses, rental and other miscellaneous expenses.

Administrative expenses in 2011 were approximately RMB111,091,000, representing an increase of approximately RMB30,025,000 or 37.0% from approximately RMB81,066,000 in 2010. The increase was primarily attributable to an increase in professional fees in connection with the global offering of the Company's shares and consultancy services on compliance with the Listing Rules and addition provision for the impairment of trade receivables.

Other Operating Expenses

Other operating expenses mainly consist of loss on disposal of items of property, plant and equipment, scrap material and donations.

Net Finance Income/(Costs)

Net finance costs represent the difference between finance income and finance costs. Finance income consists primarily of interest income on bank deposits and net foreign exchange gain. Finance costs consist primarily of interest expenses on bank loans and convertible notes.

Set forth below are the components of net finance income/(costs) for the years indicated:

	Year ended 31 December		
	2011	2010	Growth rate
	RMB'000	RMB'000	%
Finance income	**33,148**	2,823	1,074.2%
Finance costs	**(9,721)**	(42,017)	(76.9%)
Net finance income/(costs)	**23,427**	(39,194)	159.8%

Finance income increased significantly by 1,074.2% to approximately RMB33,148,000 for the year ended 31 December 2011 as compared to approximately RMB2,823,000 in 2010, primarily due to the increase in interest income received and net foreign exchange gain resulted from higher bank deposit balances after the global offering during the year.

Finance costs decreased significantly by 76.9% to approximately RMB9,721,000 for the year ended 31 December 2011 as compared to approximately RMB42,017,000 in 2010, primarily due to no interest expenses (2010: approximately RMB30,875,000) being recognized on our convertible notes as the notes were fully converted into preferred shares of the Company in June 2010.

Income Tax

Income tax represents our current income tax and deferred income tax. The member companies of the Group are subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies are domiciled or operated. The table below sets out income tax in the years indicated:

	Year ended 31 December		
	2011	2010	Growth rate
	RMB'000	RMB'000	%
Current	**41,454**	54,904	(24.5%)
Deferred	**11,866**	8,651	37.2%
Total	**53,320**	63,555	(16.1%)

Income tax charged for the Group was approximately RMB53,320,000 in 2011, representing an decrease of 16.1% from approximately RMB63,555,000 in 2010, which was the net effect of the decrease of the current income tax of approximately RMB13,450,000 and the increase of deferred income tax of approximately RMB11,866,000. The movement between current and deferred income tax was primarily due to the addition of withholding tax being recognized as current income tax in 2010 regarding the dividend distributed from profits retained by our subsidiaries in China, while such withholding tax provision in China and Peru was recorded in deferred income tax since no dividend was distributed from current year profit of our subsidiaries in China. The overall decrease in income tax was mainly attributable to the decrease in profit before taxation in current year.

Profit Attributable to Equity Shareholders of the Company

Resulting from the factors mentioned above, our profit attributable to equity shareholders of the Company decreased to approximately RMB306,017,000 in 2011 from approximately RMB340,137,000 in 2010.

Cash Flow and Liquidity

Cash Flows

The Group meets its working capital and other capital requirements principally with the following: (i) cash generated used in our operations and (ii) proceeds from the global offering. The table below sets out selected cash flow data from our consolidated statements of cash flows.

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Net cash (used in)/from operating activities	**(149,032)**	219,946
Net cash used in investing activities	**(121,444)**	(103,771)
Net cash from/(used in) financing activities	**849,070**	(17,011)
Net increase in cash and cash equivalents	**578,594**	99,164
Cash and cash equivalents at the beginning of period	**297,652**	200,075
Effect of foreign exchange rate changes, net	**(10,608)**	(1,587)
Cash and cash equivalents at the end of the period	**865,638**	297,652

Net cash (used in)/from operating activities

We derive our cash flows from operating activities principally from the receipt of payments from the sales of products. Our cash used in operating activities is mainly used to pay for the goods purchased and costs and expenses relating to operating activities.

For the year ended 31 December 2011, our net cash used in operating activities of approximately RMB149,032,000, which included the changes in working capital of (i) a decrease of inventories of approximately RMB13,198,000; (ii) an increase of trade and bills receivables of RMB454,190,000; (iii) an increase of deposits, prepayments and other receivables of RMB47,779,000; (iv) an increase of trade and bills payables of approximately RMB71,883,000; (v) an increase of deposit received, accruals and other payables of approximately RMB2,428,000 (vi) a decrease of pledge deposits of approximately RMB30,189,000; and (vii) income tax paid amount to approximately RMB48,631,000.

For the year ended 31 December 2010, our net cash generated from operating activities of approximately RMB219,946,000, which included the changes in working capital of (i) a decrease of inventories of approximately RMB57,209,000; (ii) an increase of trade and bills receivables of approximately RMB126,005,000; (iii) a decrease of deposits, prepayments and other receivables of approximately RMB29,337,000; (iv) a decrease of trade and bills payables of approximately RMB126,533,000; (v) a increase of deposits received, accruals and other payables of approximately RMB72,484,000; (vi) an increase of pledge deposits of approximately RMB21,073,000; and (vii) income tax paid amount to approximately RMB42,383,000.

Net cash used in investing activities

For the year ended 31 December 2011, our net cash used in investing activities amounted to RMB approximately RMB121,444,000, it primarily consists of (i) the payment for acquisition of property, plant and equipment of approximately RMB81,756,000; (ii) payment for acquisition of biological assets of approximately RMB38,643,000 relating to our acquisition of standing trees and related concession rights of forests located in Yunnan Province, the PRC; (iii) the lease prepayment for land uses right of approximately RMB6,327,000; and (iv) payment for acquisition of intangible assets of approximately RMB6,865,000; and partially offset by (i) interest received of approximately RMB8,190,000; and (ii) proceeds from disposal of property, plant and equipment of approximately RMB3,957,000.

For the year ended 31 December 2010, our net cash used in investing activities amounted to approximately RMB103,771,000, it primarily consists of (i) the payment for acquisition of property, plant and equipment of approximately RMB60,572,000; (ii) payment for acquisition of biological assets of approximately RMB41,530,000 relating to our acquisition of standing trees and related concession rights of forests located in Yunnan Province, the PRC; (iii) the lease prepayment for land uses right of approximately RMB7,371,000; (iv) the payment and prepayment for investment of unlisted equity securities of approximately RMB19,450,000 and (v) payment for acquisition of intangible assets of approximately RMB552,000 and partially offset by (i) interest received of approximately RMB2,823,000; (ii) proceeds from disposal of subsidiaries, net of cash disposal of approximately RMB21,558,000 and (iii) proceeds from disposal of property, plant and equipment of approximately RMB1,323,000.

Net cash from/(used in) financing activities

For the year ended 31 December 2011, our net cash from financing activities amounted to approximately RMB849,070,000 primarily due to: (i) the proceeds of approximately RMB877,392,000 from the issuance of new ordinary shares of the Company; (ii) proceeds from new bank loans of approximately RMB170,445,000; and (iii) the contribution from non-controlling interest of approximately RMB4,000,000; and partially offset by (i) repayment of bank loans of approximately RMB193,046,000; and (ii) interest paid of approximately RMB9,721,000.

For the year ended 31 December 2010, our net cash used in financing activities amounted to approximately RMB17,011,000, primarily due to the proceeds from new bank loans of approximately RMB460,304,000; and partially offset by (i) the repayment of bank loans of approximately RMB266,706,000; (ii) the dividends paid of approximately RMB200,619,000 and (ii) interest paid of approximately RMB9,990,000.

Liquidity

Net current assets and working capital sufficiency

The table below sets out our current assets, current liabilities and net current assets as at the end of the dates indicated.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Current assets		
Inventories	**266,438**	279,636
Trade and bills receivables	**964,106**	497,796
Prepayment, deposit and other receivables	**110,031**	66,502
Pledged deposits	**13,273**	43,462
Cash and cash equivalents	**865,638**	297,652
Total current assets	**2,219,486**	1,185,048
Current liabilities		
Trade and bills payables	**154,186**	82,303
Accruals and other payables	**114,078**	111,084
Loans and borrowings	**200,991**	183,458
Income tax payables	**11,619**	18,796
Total current liabilities	**480,874**	395,641
Net current assets	**1,738,612**	789,407

As at 31 December 2011, net current assets totaled approximately RMB1,738,612,000, representing 120.2% increases from approximately RMB789,407,000 as at 31 December 2010.

The increase in net current assets is principally attributable to (i) the increase in cash and cash equivalents to approximately RMB865,638,000 from approximately RMB297,652,000 mainly resulted from the proceeds from the global offering available to us and (ii) the increase of trade and bills receivables to approximately RMB964,106,000 from RMB497,796,000 resulted from the increase in use of bills receivables and a temporary longer credit period given to the loyal and valued customers in the fourth quarter of 2011 during the downturn in property development market, which is partially offset by the increase in trades and bills payables to approximately RMB154,186,000 from RMB82,303,000 resulted from a longer credit period received by the suppliers.

Liquidity was better than that as at 31 December 2010 and the current ratios as at 31 December 2011 and 2010 were 4.6 and 3.0, respectively. It was mainly attributable to the proceeds from the global offering available to us.

Capital Management

The following table presents our gearing ratio as at the end of the dates indicated.

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Total debts	276,161	307,896
Less: Cash and cash equivalent	(865,638)	(297,652)
Pledged deposits	(13,273)	(43,462)
Adjusted net assets	(602,750)	(33,218)
Total equity attributable to owners of the Company	2,512,432	1,342,267
Gearing ratio	(0.24)	(0.02)

Our gearing ratios, which are derived by dividing adjusted net debt/(assets) by total equity attributable to owners of the Company, were negative 0.24 and negative 0.02 as at 31 December 2011 and 2010, respectively. Adjusted net debt/(assets) is defined as total debt which includes bills payable, interest-bearing loans and borrowings and less cash and cash equivalents and pledged deposits.

Capital Expenditure

Our capital expenditures primarily related to purchases of property, plant and equipment, lease prepayments, biological assets and intangible assets. Set forth below is our capital expenditure for the years indicated:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	81,756	60,572
Lease prepayments	6,327	7,371
Biological assets	38,643	41,530
Intangible assets	6,865	552
Total	133,591	110,025

Indebtedness

Loans and Borrowings

Set forth below are the balances of loans and borrowings as at the end of the dates indicated:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current		
Long-term bank loans		
Secured	**35,492**	52,852
Unsecured	**21,970**	50,629
Total non-current loans and borrowings	**57,462**	103,481
Current liabilities		
Short-term bank loans		
Secured	**143,004**	55,719
Unsecured	**57,987**	127,739
Total current loans and borrowings	**200,991**	183,458
Total loans and borrowings	**258,453**	286,939

The following tables show the remaining contractual maturities at the reporting dates of the Group's loans and borrowings, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

As at 31 December 2011	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000
Loans and borrowings	258,453	263,087	203,489	39,720	19,878

As at 31 December 2010	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000
Loans and borrowings	286,939	296,714	189,705	46,281	60,728

Unutilised unsecured loan facilities as at 31 December 2011 amounted to RMB452,310,000 (2010: RMB390,463,000).

The following table details the interest rate profile of the Group's total borrowings at the end of the dates indicated:

	As at 31 December 2011		As at 31 December 2010	
	Effective interest rate %	Carrying amount RMB'000	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Bank loans	2.59% (+0.59%) +HIBOR/3.25% +LIBOR	131,830	2.59% (+0.59%) +HIBOR/3.25% +LIBOR	228,439
Fixed rate instruments				
Bank loans	0.5%	126,623	5.103%	58,500
Total		258,453		286,939

Our total loans and borrowings decreased by 9.9% to approximately RMB258,453,000 as at 31 December 2011 from approximately RMB286,939,000 as at 31 December 2010, the decrease was primarily due to the improvement of liquidity.

Capital Commitments and Contingent Liabilities

(a) Capital commitments

Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted for	**1,294**	1,250
Authorized but not contracted	**3,670**	32,048

(b) Operating lease commitments

The Group leases properties through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At the end of the reporting period, the future minimum lease payments under operating leases are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**6,681**	4,631
After 1 year but within 3 years	**7,882**	7,437
After 3 years but within 5 years	**3,968**	5,024
After 5 years	**9,722**	10,379
	28,253	27,471

The Group leases a number of factory facilities under operating leases. The leases typically run for an initial period of half a year to fourteen years, with an option to renew the lease when all terms are negotiated. None of the leases included contingent rentals.

Pledge of Assets

As at the end of the dates indicated, the following assets (except pledged deposit) were pledged for loans and borrowing:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment	**91,937**	102,918
Lease prepayments	**21,895**	22,314
Total	**113,832**	125,232

As at 31 December 2011, bills receivable of approximately RMB126,622,000 (2010: RMB18,500,000) was pledged to banks as security in connection with certain banking facilities.

Pledged Deposits

As at 31 December 2011, deposits of approximately RMB13,273,000 (2010: RMB43,462,000) were placed with banks as securities for the issuance of letter of credit for construction projects and purchase of raw materials.

Foreign Currency Risk

The Group's principal activities are carried out in the PRC. RMB is not freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

The Group is exposed to currency risk primarily arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily United States Dollars ("US$"), Hong Kong Dollars ("HK$"), Macau Pataca ("MOP"), Peruvian Nuevo Sol ("PEN"), Euro ("EUR") and Japanese yen ("JPY"). As at 31 December 2011, the cash and cash equivalents held by the Group were primarily in term of RMB, HK$ and US$, represented 78.7%, 15.7% and 5.4% (2010: 80.4%, 12.2% and 6.2%) of total amounts, respectively. The rest of the amounts were held in term of MOP, PEN and EUR. On the other hand, as at 31 December 2011, our bank loans were primarily in term of RMB, HK$ and US$, represented 50.1%, 30.9% and 19.0% (2010: 20.8%, 27.3% and 51.5%) of total amount, respectively. The rest of the amounts were held in term of EUR and JPY.

We do not use foreign currency forward contracts to hedge the currency exposure to the change of foreign currency and the Group ensure that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Employees

As at 31 December 2011, the Group had 2,158 employees (at 31 December 2010: 1,837) Relevant staff cost for the year ended 31 December 2011 was approximately RMB119,518,000 (including share option expenses of approximately RMB5,088,000) while our staff cost was approximately RMB98,321,000 (including share option expenses of approximately RMB7,991,000) for the year of 2010. The Group will regularly review remuneration and benefits of its employees accordingly to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes and share option schemes.

Material Acquisitions and Disposals of Subsidiaries

The Group did not have any material acquisition or disposal of subsidiaries or associated companies during the year ended 31 December 2011.

Use of Proceeds from the Global Offering

In May 2011, the Company's shares were listed on the main board of the Stock Exchange. A total of 388,265,000 ordinary shares with nominal value of US$0.001 each were issued at HK$2.95 per share for a total of approximately HK$1,145 million. The net proceeds raised from the abovementioned global offering of the Company, which are approximately RMB873.5 million, are and will be used in accordance with the purposes disclosed in the prospectus of the Company dated 16 May 2011.

During the period from the date of listing of the Company's shares on the Stock Exchange to 31 December 2011, approximately RMB119.0 million raised from the global offering of the Company was used for the purposes and approximately in the amounts set out below:

- Approximately RMB50.0 million was used for strategic merger and acquisition;
- Approximately RMB25.0 million was used for the development of existing brands;
- Approximately RMB17.0 million was used for working capital and general corporate purpose;
- Approximately RMB11.0 million was used for strengthen the distribution network;
- Approximately RMB10.0 million was used for the expansion of existing production facilities; and
- Approximately RMB6.0 million was used for the expansion of product portfolio.

As at 31 December 2011, approximately RMB754.5 million raised from the global offering remains unused.

Events after Reporting Year

On 4 January 2012, 68,000,000 share options entitling the holders thereof to subscribe for a total of 68,000,000 new ordinary shares of US$0.001 each in the share capital of the Company were granted under the share option scheme of the Company adopted on 3 May 2011, please refer to the announcement of the Company dated 4 January 2012 for the details of such grant.

Future Plans for Material Investments

The Company currently has no specific plan for material investments and acquisition of material capital assets. However, the Group will continue to seek new business development opportunities.

Prospect

The year 2011 marks a milestone in the development of the Group. Through the successful listing on The Stock Exchange of Hong Kong Limited, the Company established stronger capital and development platforms.

We will continue to strengthen our flooring business by, among other things, establishing strategic cooperation with famous international flooring brands to sell their imported products in exclusive franchise stores in China and acquiring promising domestic flooring brands, so as to increase the Group's market share and maintain its leading position in the industry. Furthermore, the business of wooden doors and wardrobes will also be prioritized. We will take advantage of Nature's excellent brand recognition and the Group's extensive sales network to build the business of wooden doors and wardrobes into one of our strategic core businesses. In respect of forestry resources, the Group will continue to increase acquisition as appropriate to expand its presence in the industry.

Looking forward, we believe that in spite of temporary decrease in trading volume of housing transactions due to the tightening measures, the returning to normal levels of housing prices will eventually stimulate the demand of owner-occupant buyers. Besides, the pilot program of the "Exchange Old Furniture for New" policy implemented by some local governments has got the support of the Ministry of Commerce and is likely to be promoted nationwide as part of the central government's committed efforts to boost domestic demand. Therefore, we hold that the fundamental factors underlying the long-term positive trends of the flooring and furniture industries remain unchanged. With rich marketing experience, strong brands, a vast sales network, a sound dynamic innovation-powered marketing model and service model, and constantly improved operation risk management, we have full confidence in the future of our business and we will reinforce our leading position in the industry to create even greater value for our valued shareholders.

Biographies of the Directors

Executive Directors

Mr. Se Hok Pan (佘學彬), age 52, is the Chairman and President of our Company and was appointed a Director on 27 July 2007. Mr. Se is a co-founder of our Group. Mr. Se is responsible for formulating overall strategies, planning and business development of our Company, managing and supervising the financial management functions, human resources and sales and marketing of the Company and is instrumental to our growth and business expansion since our establishment in 2004. Mr. Se began his career in the flooring products industry in 1995 and has approximately 17 years of experience in the flooring products industry. Mr. Se holds important positions in influential industry associations. He is currently the vice president of China Forestry Industry Association (中國林業產業協會), and one of the drafters of the China National Standards for Solid Wood Flooring (中國實木地板國家標準) which came into effect in 2009. Mr. Se is also a member of the Gansu Provincial Committee of Chinese People's Political Consultative Conference (中國人民政治協商會議甘肅省委員會) and the vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Mr. Se served as a general manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Mr. Se served as a president at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. Se has received numerous high profile awards such as the "Robert A. Mundell World Executive Awards (2004)", "China Forestry Industry Annual Person (2009)" (中國林業產業年度人物) as recognized by China National Forest Products Association (中國林產工業協會) and China Forestry Industry Association (中國林業產業協會) and "The Most Influential Figures in the 15-Year Development of China's Flooring Industry (2010)" (中國地板行業輝煌十五年最具影響力人物獎). Mr. Se is the spouse of Ms. Un Son I, the younger brother of Mr. She Jian Bin and the brother-in-law of Mr. Chow Chi Keung, Savio.

Ms. Un Son I (袁順意), age 46, is a Vice President of our Company and the General Manager of the Supply Chain Management Department of our Group. Ms. Un was appointed a Director on 27 July 2007. Ms. Un is a co-founder of our Group. Ms. Un is responsible for networking and development of relationship with suppliers, procurement control, logistics management and asset management and control to ensure the supply chain operates efficiently. Ms. Un has approximately 17 years of experience in the flooring products industry. Ms. Un is a member of China-ASEAN Organization (中國東盟協會) and vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Ms. Un served as a deputy general manager and a procurement manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Ms. Un was a director of president office, a director of human resources and a director of the procurement center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Ms. Un was awarded as one of the "100 Outstanding Female Entrepreneurs of China" (中國百名傑出女企業家). Ms. Un is the spouse of Mr. Se Hok Pan and the sister-in-law of Mr. She Jian Bin and Mr. Chow Chi Keung, Savio.

Mr. She Jian Bin (佘建彬), age 55, is a Vice President of our Company and the General Manager of the Sales and Distribution Department of our Group. Mr. She was appointed a Director on 8 May 2008. Mr. She is responsible for the overall management of the sales and distribution network of the Group, devising and overseeing the execution of our brand building and sales and marketing strategies, analyzing market trends and development, and managing and supervising daily operations of distributors and the Sales and Distribution Department. Mr. She has approximately 24 years of experience in the timber industry and the flooring products industry. Mr. She was a purchasing manager of wood at P.T. Sumber Laris Jaya Manufacturer Timber Industry from 1988 to 1994 and worked at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城) for its production, sales and distribution management from 1995 to 2001. During the period between July 2001 and September 2004, Mr. She served as a director of the sales center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. She has received "15 Prosperous Years of the China Flooring Industry — Promotion of Industry Development Award" (中國地板行業輝煌十五年傑出行業建設推動獎) in 2010. Mr. She joined our Group in 2004 and has since held various managerial positions in sales and distribution. Mr. She is the elder brother of Mr. Se Hok Pan and the brother-in-law of Ms. Un Son I.

Mr. Chow Chi Keung Savio (周志強), age 49, is the General Manager of the International Sales and Distribution Department of our Group. Mr. Chow was appointed a Director on 8 May 2008. Mr. Chow is responsible for managing the overseas sales and distribution network of our Group, including management of overseas distributors, supermarkets and retail stores, supervising the development of business strategies according to the local market conditions, marketing and advertising of our products. Mr. Chow has approximately ten years of experience in the flooring products industry. Mr. Chow joined our Group in 2004 and has since held various managerial positions in the areas of manufacturing, quality control and sales and distribution. Mr. Chow qualified for a Bachelor of Science program and obtained a Bachelor of Engineering (Electrical and Electronic) degree from the University of Adelaide in 1987 and 1988, respectively. Mr. Chow is the brother-in-law of Mr. Se Hok Pan and Ms. Un Son I.

Non-executive Directors

Mr. Homer Sun (孫弘), age 41, joined the Board on 8 May 2008. Mr. Sun is currently the Chief Investment Officer of Morgan Stanley Private Equity Asia and leads the China investments for Morgan Stanley Private Equity Asia. Mr. Sun is also a Managing Director of Morgan Stanley Asia Limited and a member of the China Management Committee which is comprised of Morgan Stanley Asia Limited's most senior business leaders within China. He is currently the Non-Executive Director of Sihuan Pharmaceutical Holdings Group (stock code: 460), China Shanshui Cement Group (stock code: 691), China XD Plastics (a company listed on the NASDAQ stock exchange, ticker: CXDC) and Yongye International (a company listed on the NASDAQ stock exchange, ticker: YONG). Mr. Sun joined Morgan Stanley Asia Limited in 2000 and worked for six years on various mergers and acquisitions in Greater China in the Investment Banking Division prior to joining Morgan Stanley Private Equity Asia Limited. From 1996 to 2000, he was a corporate attorney with Simpson Thacher & Bartlett in New York and Hong Kong, specializing in mergers and acquisitions. Mr. Sun received a B.S.E. in Chemical Engineering, magna cum laude, from the University of Michigan in 1993 and a J.D, cum laude, from the University of Michigan Law School in 1996.

Mr. Eddy Huang (黃翊), age 37, joined the Board on 8 May 2008. Mr. Huang is currently a Managing Director at The Blackstone Group in Hong Kong where he is focused on Greater China private equity investment. Previously, he was a managing director of Morgan Stanley Asia Limited and a senior member of Morgan Stanley Private Equity Asia focusing on China investments. Mr. Eddy Huang had been with Morgan Stanley Asia Limited since 2003 and advised on a broad range of technology, media and telecommunications transactions across Greater China for Morgan Stanley Asia Limited's Investment Banking Division prior to joining Morgan Stanley Private Equity Asia. Prior to joining Morgan Stanley Asia Limited, Mr. Huang was previously with Morgan Stanley's Investment Banking Division in New York. Mr. Huang is currently a non-executive director of Sihuan Pharmaceutical Holdings Group Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 460). He is also a director of CIMIC Industrial Group Ltd. and its subsidiary, Shanghai CIMIC Tiles Co., Ltd., which is a Shenzhen-listed company (Stock Code: 002162). Mr. Huang received a Bachelor of Liberal Arts degree from Yale University in 1997 and a Master of Business Administration degree from Harvard Business School in 2002.

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur (李國章), age 67, was appointed as an independent non-executive Director with effect from 4 May 2011. Professor Li is currently the deputy chairman of The Bank of East Asia Limited (Stock Code: 23) and an independent non-executive director of Shangri-La Asia Limited (Stock Code: 69), both being companies listed on the Hong Kong Stock Exchange, a non-executive director of AFFIN Holdings Berhad in Malaysia and BioDiem Ltd. in Australia. Professor Li is also a member of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會). Professor Li served as Professor of Surgery (Founding Chair) in the Department of Surgery of The Chinese University of Hong Kong from 1982 to 2005. In addition, Professor Li was the Dean of the Faculty of Medicine of The Chinese University of Hong Kong from 1992 to 1996 and the Vice-Chancellor of the university from 1996 to 2002. Professor Li was a non-executive director of Glaxo Wellcome plc. from 1997 to 2000. In 2002, Professor Li became Secretary for Education and Manpower as well as a member of the Executive Council of the Hong Kong Special Administrative Region Government and his term ended in June 2007. Prior to 2002, Professor Li was a non-executive director of The Bank of East Asia Limited, China Mobile Limited, Henderson Cyber Limited and The Wharf (Holdings) Limited. During the same period of time, Professor Li was also the non-executive chairman of Corus and Regal Hotels plc. Professor Li resigned from all these positions in 2002 when he assumed his role as Secretary for Education and Manpower in Hong Kong. Professor Li obtained his medical degree from University of Cambridge in 1969. Professor Li has confirmed that he has not, by himself or through any firms, provided profession services to the Company during the Track Record Period.

Mr. Zhang Sen Lin (張森林), age 65, was appointed as an independent non-executive Director with effect from 4 May 2011. Mr. Zhang is currently an independent director of Guangdong Weihua Corporation (廣東威華股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002240), an independent director of Sichuan Shengda Forestry Industry Co., Ltd. (四川升達林業產業股份有限公司) (Stock Code: 002259), a company listed on the Shenzhen Stock Exchange, a director of China Jilin Forest Industry Group Co., Ltd. (中國吉林森林工業集團有限責任公司) and the consultant to the Chinese National Forest Group Corporation (中國林產工業協會). Mr. Zhang has over 20 years of experience in forestry. Mr. Zhang was previously the president of Chinese National Forest Products Industry Association (中國林產工業協會), an independent director of Guangdong Yihua Timber Industry Co., Ltd. (廣東宜華木業股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600978). Mr. Zhang also served as the deputy factory manager and acting factory manager of Jiangxi Timber Mill (江西木材廠) and manager of Jiangxi Province Forestry Industry Company (江西省林業工業公司). Mr. Zhang graduated from Nanjing Forestry University (南京林業大學), majoring in forestry industry and qualified as a professor level senior engineer. Mr. Zhang also studied pulp and paper-making technology and management in Georgia Institute of Technology and modern business management from University of Houston in the United States. Mr. Zhang has confirmed that he has not, by himself or through any firms, provided profession services to the Company during the Track Record Period.

Mr. Chan Siu Wing, Raymond (陳兆榮), age 47, was appointed as an independent non-executive Director with effect from 4 May 2011. Mr. Chan is currently an executive director of ENM Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 128). Mr. Chan also holds the position of independent non-executive director of Phoenitron Holdings Limited (formerly known as Cardlink Technology Group Limited) (Stock Code: 8066), a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. Mr. Chan has over 20 years of experience in the field of accounting, taxation, finance and trust. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a certified practicing accountant of the Australian Society of Certified Practising Accountants, and a founding member of the Macau Society of Certified Practising Accountants. For the period from 28 September 2004 to 22 December 2009, Mr. Chan was an independent non-executive director of Prosperity Investment Holdings Limited (formerly known as GR Investment International Limited) (Stock Code: 310). For the period from 2 April 2009 to 7 April 2010, Mr. Chan was an independent non-executive director of Karce International Holdings Company Limited (Stock Code: 1159). Both Prosperity Investment Holdings Limited and Karce International Holdings Company Limited are companies listed on the Main Board of the Hong Kong Stock Exchange. For the period from 1 September 2008 to 30 November 2010, Mr. Chan was an independent non-executive director of Pan Asia Mining Limited (formerly known as Intelli-Media Group (Holdings) Limited) (Stock Code: 8173), a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange.

Mr. Ho King Fung, Eric (何敬豐), age 35, was appointed as an independent non-executive Director with effect from 4 May 2011. Mr. Ho is a solicitor of the Hong Kong Special Administrative Region and the chairman and executive director of Ample Hope Limited. Mr. Ho is currently a non-executive director of United Energy Group Limited (Stock Code: 467), a company listed on the Hong Kong Stock Exchange. In Macau, Mr. Ho is also the chairman of P&W Money Changer Limited and Jing Yang Company Limited, and an executive director of Mascargo (Macau) Company Limited. Mr. Ho joined JP Morgan in 2000 as an analyst and worked as a trainee solicitor at Linklaters between 2003 and 2005 and as an associate between 2005 and 2006. Between 2007 and 2010, Mr. Ho worked at Deutsche Bank AG, Hong Kong Branch and his last position held was vice president and head of Hong Kong and Macau Origination. He is a committee member of the Chinese People's Political Consultative Conference of Beijing (中國人民政治協商會議北京市委員會) and the president of Money Exchangers' Association of Macao. Mr. Ho was also awarded China's Top 10 Economic Talents (十大中華經濟英才) in 2009. Mr. Ho graduated from the University of New South Wales, Australia with Bachelor of Commerce (Finance) and Bachelor of Laws degrees.

Report of the Directors

The board of directors of the Company (the "Board") is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group"), for the year ended 31 December 2011.

Principal Activities

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (together, the "Group") is the manufacturing and sale of flooring products as well as the trading of timber and flooring products. The principal activities of the Company's subsidiaries are set out in Note 12 to the financial statements.

Results

The results of the Group for the year ended 31 December 2011 are set out in Consolidated Income Statement to the financial statements.

Final Dividend

The Board recommends the payment of a final dividend of HK4.3 cents per ordinary share for the year ended 31 December 2011 and is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Closure of Register of Members

The register of members of the Company will be closed from 30 May 2012 to 1 June 2012 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the proposed 2011 final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 29 May 2012. The 2011 final dividend is subject to the approval of shareholders at the forthcoming annual general meeting, and if approved, will be payable on or about 8 June 2012 to shareholders on the register of members of the Company on 1 June 2012.

Subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2011 are set out in Note 12 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 14 to the financial statements.

Share Capital and Share Option Schemes

Details of the Company's share capital and share option schemes are set out in Note 28 to the financial statements and the paragraph headed "Share Option Schemes" below, respectively.

Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 29 to the financial statements.

Distributable Reserves

As at 31 December 2011, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium, other reserves and retained earnings totaling approximately HKD2,081,249,000 (equivalent to RMB1,687,269,000).

Four Year Financial Summary

The Company was listed on the main board of the Stock Exchange on 26 May 2011 (the "Listing Date"). A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 141 of this annual report.

Bank and Other Loans

Particulars of bank and other loans of the Group as at 31 December 2011 are set out in Note 25 to the financial statements.

Directors

The directors of the Company during the year were:

Executive Directors

Mr. Se Hok Pan *(Chairman)*
Ms. Un Son I
Mr. She Jan Bin
Mr. Chow Chi Keung, Savio

Non-executive Directors

Mr. Homer Sun
Mr. Eddy Huang

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur	(appointed on 4 May 2011)
Mr. Zhang Sen Lin	(appointed on 4 May 2011)
Mr. Chan Siu Wing, Raymond	(appointed on 4 May 2011)
Mr. Ho King Fung, Eric	(appointed on 4 May 2011)

In accordance with Article 84 of the articles of association of the Company, Mr. Se Hok Pan, Ms. Un Son I, Mr. She Jian Bin and Mr. Eddy Huang shall retire by rotation at the forthcoming annual general meeting and they (except Mr. Eddy Huang), being eligible, offer themselves for re-election. Mr. Eddy Huang will retire and will not offer himself for re-election.

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

The Company has received an annual confirmation from each of the independent non-executive directors as regards their independence to the Company, and considers them to be independent.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2011, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

	Number of shares held			
Name of Director	Personal Interest	Corporate Interest	Total	Percentage of shareholding
Mr. Se Hok Pan (also the President)	10,816,000	719,321,730 (Note)	730,137,730	48.41%
Ms. Un Son I	Nil	719,321,730 (Note)	719,321,730	47.69%

Note: Amongst these 719,321,730 shares, 718,921,730 shares are owned by Freewings Development Co., Ltd. and 400,000 shares are owned by Loyal Winner Limited. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 44.92% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively. Loyal Winner Limited is a private company beneficially owned as to 50% by Mr. Se Hok Pan and 50% by Ms. Un Son I. Ms. Un Son I is the spouse of Mr. Se Hok Pan.

Share Option Schemes

On 16 December 2008, a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The rules of the Pre-IPO Share Option Scheme were subsequently amended pursuant to a written resolution passed by our then shareholders on 30 June 2010 and a written resolution of the Board on 26 April 2011. The purpose of the Pre-IPO Share Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. Eligible persons of the Pre-IPO Share Option Scheme include all employees (full-time or part-time) of the Company or any of its subsidiaries or investee companies.

As at 31 December 2011, the maximum number of shares that may be issued pursuant to the options granted and outstanding under the Pre-IPO Share Option Scheme is 32,184,340 shares, representing approximately 2.13% of the issued share capital of the Company as at the date of this report.

Subject to the satisfactory performance of the participants of the Pre-IPO Share Option Scheme, the options granted to each of the participants shall be vested in accordance with the following schedule:

For options granted on 17 December 2008

Vesting period	Maximum cumulative percentage of options vested
30 December 2008	10%
30 December 2009	20%
30 December of the year of the Listing Date	50%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

For options granted on 1 July 2010

Vesting period	Maximum cumulative percentage of options vested
30 December 2010	20%
30 December of the year of the Listing Date	40%
30 December of the year 12 months from the Listing Date	70%
30 December of the year 24 months from the Listing Date	100%

Each option granted under the Pre-IPO Share Option Scheme has a ten-year exercise period provided that none of the options (whether they are vested or not) shall be exercisable before the expiry of 18 months from the Listing Date.

The exercise price per share for options granted under the Pre-IPO Share Option Scheme shall be determined by the Board, which shall be subject to adjustment in the event of any alteration to the capital structure of the Company. The exercise price shall be 120% of the fair market price per share as determined by an independent valuer appointed by the Company. The consideration payable for the acceptance of each grant of options under the Pre-IPO Share Option Scheme is HK$1.00 (or the equivalent amount in RMB). Details of the share options movements during the year ended 31 December 2011 under the Pre-IPO Share Option Scheme are as follows:

Category of participants	Date of Grant	Exercise period	Exercise price per share	No. of Shares involved in the options outstanding at the beginning of the period	Exercised during the period	Lapsed during the period	No. of Shares involved in the options outstanding at period end
Director of our subsidiaries							
Liang Zhihua	17/12/2008	17/12/2008–16/12/2018	HK$2.35	576,780	—	—	576,780
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	7,000,000	—	—	7,000,000
Former Director of the Company							
Nam Cheung Ming	17/12/2008	17/12/2008–16/12/2018	HK$2.35	1,887,640	—	—	1,887,640
Employees							
Employees	17/12/2008	17/12/2008–16/12/2018	HK$2.35	19,260,280	—	1,540,360	17,719,920
	1/7/2010	1/7/2010–30/6/2020	HK$3.38	5,000,000	—	—	5,000,000
Total				33,724,700	—	1,540,360	32,184,340

No option under the Pre-IPO Share Option Scheme has been granted or cancelled during the year ended 31 December 2011. No further option has been or will be granted under the Pre-IPO Share Option Scheme after the listing of the Company.

The Company has also adopted a share option scheme on 3 May 2011 (the "Share Option Scheme"), the purpose of which is to incentivize and reward eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company. The rules of the Share Option Scheme were subsequently amended pursuant to a resolution of the Board on 28 November 2011. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the Listing Date, after which period no further options will be granted but the provisions of the Share Option Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto. Eligible persons under the Share Option Scheme include, among others, employees, directors, customers, business or joint venture partners, advisors, consultant, contractor, suppliers, agents or service providers of the Group and their respective full-time employees.

The maximum number of shares which may be issued upon exercise of all options that are or may be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme equals to 10% of the shares in issue as at the Listing Date. Options lapsed or cancelled in accordance with the terms of the Pre-IPO Share Option Scheme or the Share Option Scheme will not be counted for the purpose of calculating this 10% limit.

As at 31 December 2011, the total number of shares which may be issued on the exercise of options to be granted under the Share Option Scheme is 117,149,659, representing approximately 7.77% of the issued share capital of the Company as at the date of this report. In addition, no options shall be granted under the Share Option Scheme to any eligible person which, if exercised, would result in such eligible person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of offer, exceeds 1% of the shares in issue at such date.

An option granted under the Share Option Scheme shall be subject to such terms and conditions (if any) as may be determined by the Board at the date of offer and specified in the offer. Such terms and conditions may include a minimum period for which any option must be held before it can be exercised and/or any performance target which need to be achieved by an option-holder before the option can be exercised.

The exercise price in respect of any option granted under the Share Option Scheme shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of offer;

(ii) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer; and

(iii) the nominal value of the shares.

An amount of HK$1.00 is payable upon acceptance of the grant of options.

As at 31 December 2011, no option has been granted by the Company under the Share Option Scheme.

Rights to Acquire the Company's Securities

Save as disclosed under the sections "Share Option Schemes" above, at no time during the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company, its holding company or any of its subsidiaries or fellow 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 year or at any time during the year.

Directors' Interests in Competing Business

As at the date of this report, none of the directors of the Company and directors of the Company's subsidiaries, or their respective associates had interests in businesses, other than being a director of the Company and/or its subsidiaries and their respective associates, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Management Contracts

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

Substantial Shareholders

As at 31 December 2011, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholders	Capacity and nature of interest	Number of shares held	Percentage of shares in issue
Freewings Development Co., Ltd.	Beneficial owner	718,921,730 (Note 1)	47.67%
Team One Investments Limited	Interest in controlled corporations	718,921,730 (Note 1)	47.67%
Trader World Limited	Interest in controlled corporations	718,921,730 (Note 1)	47.67%
MS Flooring Holdings Co., Ltd.	Beneficial owner	269,999,990 (Note 2)	17.90%
Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd.	Interest in controlled corporations	269,999,990 (Note 2)	17.90%

Name of shareholders	Capacity and nature of interest	Number of shares held	Percentage of shares in issue
Morgan Stanley Private Equity Asia III, Inc.	Interest in controlled corporations	269,999,990 (Note 2)	17.90%
Morgan Stanley Private Equity Asia III, L.L.C.	Interest in controlled corporations	269,999,990 (Note 2)	17.90%
Morgan Stanley Private Equity Asia III, L.P.	Interest in controlled corporations	269,999,990 (Note 2)	17.90%
International Finance Corporation	Beneficial owner	108,000,000	7.16%

Notes:

1. Freewings Development Co., Ltd. is a private company owned by Team One Investments Limited as to 44.92% and Trader World Limited as to 39.81%. Team One Investments Limited and Trader World Limited are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively.

2. MS Flooring Holdings Co., Ltd. is an exempted company incorporated in the Cayman Islands, and is wholly owned by Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd. is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is Morgan Stanley Private Equity Asia III, L.P., a fund managed by the private equity arm of Morgan Stanley. The general partner of Morgan Stanley Private Equity Asia III, L.P. is Morgan Stanley Private Equity Asia III, L.L.C., the managing member of which is Morgan Stanley Private Equity Asia III, Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is an indirect wholly-owned subsidiary of Morgan Stanley.

3. All interests stated are long positions.

Save as disclosed above, the Directors are not aware that there is any party who, as at 31 December 2011, had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Connected Transactions

From the date of the Company's listing (being 26 May 2011) to 31 December 2011, the Group has not conducted any connected transaction or continuing connected transaction (as defined under the Listing Rules) which are subject to reporting and annual review requirements under the Listing Rules.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

Convertible and Redeemable Securities

On 20 May 2011, the Company converted 29,999,999 convertible preferred shares held by MS Flooring Holding Co., Ltd. and 12,000,000 convertible preferred shares held by International Finance Corporation into 29,999,999 shares and 12,000,000 shares, respectively. On the same day, the Company redeemed and cancelled one special share held by MS Flooring Holding Co., Ltd. No cash consideration was received by the Company for such conversion, redemption or cancellation and after such conversion, redemption and cancellation, the Company has no convertible preferred share or special share in issue.

Purchase, Sale or Redemption of Securities

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year.

Major Customers and Suppliers

The percentage of revenue attributable to the Group's five largest customers was less than 30% of the Group's total revenue for the year ended 31 December 2011. Purchases of raw materials attributable to the Group's five largest suppliers amounted to less than 30% of the Group's total cost of sales for the year ended 31 December 2011.

Emolument Policy

The Company is well aware of the importance of incentivising and retaining its employees. The Group offers competitive remuneration packages to its employees, including salaries and bonuses to qualified employees, as well as a long-term incentive scheme in the form of share option schemes for eligible employees, details of which are set out under the paragraph headed "Share Option Schemes" above.

Employee Retirement Benefits

From the date of the Company's listing (being 26 May 2011) to 31 December 2011, the Company has complied, in all material respects, with relevant PRC labour laws and regulations, including contributing to employee retirement benefit schemes, medical and social security insurance schemes and housing provident fund. In Hong Kong, the Company has participated in a mandatory provident fund scheme for its employees in Hong Kong in accordance with applicable Hong Kong laws and regulations.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the latest practicable date prior to the issue of this report, the Company has maintained the prescribed public float under the Listing Rules.

Audit Committee

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed the audited financial statements of the Group for the financial year ended 31 December 2011.

Auditors

The financial statements have been audited by KPMG who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

On behalf of the Board

Se Hok Pan
Chairman

Hong Kong, 30 March 2012

Corporate Governance Report

The Company is committed to achieving high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound governance policies and measures. The Board will continue to review and monitor the corporate governance of the Company with reference to the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") so as to maintain a high standard of corporate governance of the Company.

Throughout the period commencing from the date of the listing of the Company on the Stock Exchange on 26 May 2011 (the "Listing Date") through to 31 December 2011, the Company has complied with the applicable code provisions of the Code, except for a deviation from the code provision A.2.1 which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Currently, the roles of Chairman and President of the Company are performed by Mr. Se Hok Pan. Mr. Se Hok Pan is a co-founder of the Group and was appointed director of the Company on 27 July 2007. Mr. Se is responsible for formulating overall strategic planning, business development and management of the Company and is instrumental to the Group's growth and business expansion since its establishment in 2004. The Company believes that the combination of the roles of Chairman and President can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business development opportunities efficiently. The Company believes that through the supervision of the Board and its independent non-executive directors, sufficient safeguards are in place to ensure balance of powers within the Board so that the interests of the shareholders are adequately and fairly represented.

Board of Directors

The Board is charged with promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

The Board of the Company currently consists of ten directors, namely Mr. Se Hok Pan (Chairman and President), Ms. Un Son I, Mr. She Jian Bin and Mr. Chow Chi Keung, Savio as executive directors, Mr. Homer Sun and Mr. Eddy Huang as non-executive directors and Professor Li Kwok Cheung, Arthur, Mr. Zhang Sen Lin, Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric as independent non-executive Directors. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The biographies of the Directors which include relationships between Board members are set out on pages 20 to 23 of this annual report.

Each of the executive directors, namely Mr. Se Hok Pan, Ms. Un Son I, Mr. She Jian Bin and Mr. Chow Chi Keung, Savio has entered into a service contract with the Company on 26 March 2009 for an initial fixed period of five years from 1 January 2009. Each of the independent non-executive Directors, namely Professor Li Kwok Cheung, Arthur, Mr. Zhang Sen Lin, Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric was appointed under a formal letter of appointment with the Company for an initial term of two years commencing on 4 May 2011. Each of the non-executive directors, namely Mr. Homer Sun and Mr. Eddy Huang was appointed under a formal letter of appointment with the Company with no fixed term. Notwithstanding the above, all Directors, including the non-executive Directors, are subject to retirement by rotation at least once every three years in accordance with the Listing Rules and the articles of association of the Company. A retiring director is eligible for re-election.

The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of the Directors for 2011 are set out in note 7 to the financial statements.

Throughout the period commencing from the Listing Date through to 31 December 2011, the Company has four independent non-executive directors, which number exceeds the minimum requirement of the Listing Rules that the number of independent non-executive directors must represent at least one-third of the Board.

The Company has received a written confirmation of independence from each of the independent non-executive directors, and considers them to be independent.

Directors have access to the services of the Company Secretary to ensure that the Board procedures are followed. The Company Secretary of the Company is Mr. Teoh Chun Ming. Mr. Teoh is also the Chief Financial Officer of the Group.

Directors' Attendance Records

Board meetings are held at least four times a year at approximately quarterly intervals and on other occasions when necessary. Details of directors' attendance at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee held during the period from the Listing Date to 31 December 2011 are set out in the following table:

Directors	Number of meetings attended/held from the Listing Date to 31 December 2011				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee
Executive Directors					
Mr. Se Hok Pan *(Chairman and President)*	2/2	—	—	Note 2	Note 3
Ms. Un Son I	2/2	—	—	—	—
Mr. She Jian Bin	1/2	—	—	—	—
Mr. Chow Chi Keung, Savio	2/2	—	—	—	—
Non-executive Directors					
Mr. Homer Sun	2/2	—	—	—	—
Mr. Eddy Huang	1/2	—	—	—	—
Independent non-executive Directors					
Professor Li Kwok Cheung, Arthur	1/2	—	Note 1	—	—
Mr. Zhang Sen Lin	2/2	1/1	Note 1	—	—
Mr. Chan Siu Wing, Raymond	2/2	1/1	—	Note 2	—
Mr. Ho King Fung, Eric	2/2	1/1	Note 1	Note 2	Note 3

Notes :

1. No meeting was held by the Remuneration Committee during the period from the Listing Date to the end of 2011.

2. The Nomination Committee was established on 28 November 2011. No meeting was held by the Nomination Committee during the period from its date of establishment to the end of 2011.

3. The Corporate Governance Committee was established on 28 November 2011. No meeting was held by the Corporate Governance Committee during the period from the date of its establishment to the end of 2011.

No general meetings were held from the Listing Date through to 31 December 2011.

Board Committees

The Company currently has five principal Board committees, which are the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and the Executive Committee. The Audit Committee, the Remuneration Committee and the Executive Committee were established on 3 May 2011, while the Nomination Committee and the Corporate Governance Committee were established on 28 November 2011.

Each of the Board committees operates under its terms of reference. On 30 March 2012, the Board approved the amendments to the terms of reference of the Audit Committee and the Remuneration Committee in response to the amendments to the Code and the associated Listing Rules which came into effect on 1 April 2012. The terms of reference of the Board committees are available on the websites of the Company and the Stock Exchange.

Audit Committee

Membership

The Audit Committee currently has three members, namely Mr. Chan Siu Wing, Raymond (Chairman), Mr. Zhang Sen Lin and Mr. Ho King Fung, Eric, all of whom are independent non-executive directors.

Mr. Chan Siu Wing, Raymond, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the Australian Society of Certified Practising Accountants, and a founding member of the Macau Society of Certified Practising Accountants, has the appropriate professional qualifications to lead and chair the Audit Committee.

Responsibilities and work done

The primary responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Company's financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

The work performed by the Audit Committee during the period from the Listing Date to 31 December 2011 is as follows:

- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2011;
- reviewed the adequacy of resources, staff qualifications and experience of the Group's accounting and financial reporting function; and
- reviewed the internal control practices of the Group.

Remuneration Committee

Membership

The Remuneration Committee currently has three members, namely Professor Li Kwok Cheung, Arthur (Chairman), Mr. Zhang Sen Lin and Mr. Ho King Fung, Eric, all of whom are independent non-executive directors.

Responsibilities and work done

The Remuneration Committee has adopted the model described in code provision B.1.2(c)(i) of the Code in its terms of reference. It will make recommendations to the Board on the remuneration packages for individual executive directors and senior management, with the Board retaining the final authority to approve such remuneration packages. The other principal responsibilities of the Remuneration Committee include (i) making recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy, (ii) making recommendations to the Board on the remuneration of the non-executive directors; and (iii) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives.

No meeting was held by the Remuneration Committee during the period from the Listing Date to the end of 2011.

Nomination Committee

Membership

The Nomination Committee currently has three members, namely Mr. Se Hok Pan (Chairman), Mr. Chan Siu Wing, Raymond and Mr. Ho King Fung, Eric. A majority of the members of the Nomination Committee are independent non-executive directors. Mr. Se Hok Pan, the chairman of the Nomination Committee, is the Chairman and President of the Company.

Responsibilities and work done

The primary responsibilities of the Nomination Committee include, among other things, reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive directors.

The Nomination Committee was established on 28 November 2011. No meeting was held by the Nomination Committee during the period from its date of establishment to the end of 2011. Before the establishment of the Nomination Committee, the functions of the Nomination Committee were performed by the Board. As there has been no change to the Board composition from the Listing Date to 31 December 2011, the Board has not dealt with or considered nomination of directors during such period.

Corporate Governance Committee

Membership

The Corporate Governance Committee currently has two members, namely Mr. Se Hok Pan (Chairman) and Mr. Ho King Fung, Eric.

Responsibilities and work done

The primary responsibilities of the Corporate Governance Committee include, among other things, developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board, and reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements, and reviewing the Company's compliance with the Code.

The Corporate Governance Committee was established on 28 November 2011 and no meeting was held by the Corporate Governance Committee during the period from the date of its establishment to the end of 2011.

Executive Committee

Membership

The Executive Committee currently has two executive directors, namely Mr. Se Hok Pan (Chairman) and Ms. Un Son I.

Responsibilities and work done

The principal responsibilities of the Executive Committee include (i) implementing the business plan and company strategies as approved by the Board and developing specific implementation plan; and (ii) monitoring and overseeing the implementation of the budget as approved by the Board. Since its establishment in May 2011, the Executive Committee has duly performed its responsibilities and contributed to the business development of the Group.

Model Code for Securities Transactions by Directors

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Save and except for the interests disclosed in the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" in the Report of the Directors of this annual report, none of the directors had any other interests in the shares of the Company as at 31 December 2011. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code throughout the period commencing from the Listing Date to 31 December 2011.

External Auditors

KPMG are appointed as the external auditors of the Company.

For the year ended 31 December 2011, the fees paid to KPMG for the audit of the financial statements of the Group are RMB7.7 million, of which RMB6.2 million represents audit fees paid in relation to the audit for the initial public offering and listing of the Company, and RMB1.5 million represents fees paid to KPMG as the audit fees for the six months ended 30 June 2011.

KPMG did not provide any non-audit services to the Group in the year.

Accountability and Audit

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities on the financial statements is set out on page 42 of this annual report. In preparing the financial statements for the year ended 31 December 2011, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The Board has further reviewed the effectiveness of the internal control system of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards.

Shareholders

The Company is incorporated in the Cayman Islands. Pursuant to the articles of association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company may, by written requisition to the Board or the Company Secretary, require an extraordinary general meeting to be convened by the Board for the transaction of any business specified in such requisition. The written requisition shall be deposited at the Company's principal place of business in Hong Kong at Unit 3401, 34/F, West Tower, Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong, marked for the attention of the Company Secretary. The general meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to Article 85 of the articles of association of the Company, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at any general meeting (including the annual general meeting), the shareholder should lodge a written notice at the registered office or the head office of the Company in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days. Such written notice must be accompanied by a notice signed by the person to be proposed of his willingness to be elected as a Director.

Enquiries may be put to the Board by contacting the Company's Investor Relations Department through shareholders' hotline (852) 2858 6665, email at info@nature-hk.hk or directly by raising the questions at an annual general meeting or extraordinary general meeting.

During the period from the Listing Date to the date of this annual report, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the websites of the Company and the Stock Exchange.

Independent Auditor's Report

To the shareholders of China Flooring Holding Company Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Flooring Holding Company Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 44 to 140, which comprise the consolidated and company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building,
10 Chater Road,
Central, Hong Kong

30 March 2012

Consolidated Income Statement

For the year ended 31 December 2011 (Expressed in Renminbi)

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Turnover	3 &11(b)	**1,560,985**	1,623,908
Cost of sales		**(1,045,109)**	(1,116,205)
Gross profit		**515,876**	507,703
Other net income	4(a)	**2,838**	7,976
Net change in fair value of biological assets	17	**92,707**	106,798
Distribution costs		**(162,511)**	(95,798)
Administrative expenses		**(111,091)**	(81,066)
Other operating expenses	4(b)	**(2,173)**	(2,727)
Profit from operations		**335,646**	442,886
Finance income		**33,148**	2,823
Finance costs		**(9,721)**	(42,017)
Net finance income/(costs)	5(a)	**23,427**	(39,194)
Profit before taxation	6(b)	**359,073**	403,692
Income tax	6(a)	**(53,320)**	(63,555)
Profit for the year		**305,753**	340,137
Attributable to:			
Equity shareholders of the company		**306,017**	340,137
Non-controlling interests		**(264)**	—
Profit for the year		**305,753**	340,137
Earnings per share (RMB):			
Basic	10	**0.23**	0.25
Diluted	10	**0.23**	0.25

The notes on pages 53 to 140 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011 (Expressed in Renminbi)

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**305,753**	340,137
Other comprehensive loss for the year		
Exchange differences on translation of financial statements of entities not using RMB as functional currency	**(40,636)**	(1,721)
Total comprehensive income for the year	**265,117**	338,416
Attributable to:		
Equity shareholders of the company	**265,381**	338,416
Non-controlling interests	**(264)**	—
Total comprehensive income for the year	**265,117**	338,416

The notes on pages 53 to 140 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011 (Expressed in Renminbi)

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	14	**385,026**	354,960
Intangible assets	15	**6,672**	622
Lease prepayments	16	**66,161**	67,672
Biological assets	17	**372,962**	246,211
Investments in unlisted equity securities	13	**19,450**	15,200
Deposits, prepayments and other receivables	20	**24,257**	3,237
Deferred tax assets	27(c)	**11,019**	6,739
		885,547	694,641
Current assets			
Inventories	18	**266,438**	279,636
Trade and bills receivables	19	**964,106**	497,796
Deposits, prepayments and other receivables	20	**110,031**	66,502
Pledged deposits	21	**13,273**	43,462
Cash and cash equivalents	22	**865,638**	297,652
		2,219,486	1,185,048
Current liabilities			
Trade and bills payables	23	**154,186**	82,303
Deposits received, accruals and other payables	24	**114,078**	111,084
Loans and borrowings	25	**200,991**	183,458
Income tax payables	27(a)	**11,619**	18,796
		480,874	395,641
Net current assets		**1,738,612**	789,407
Total assets less current liabilities		**2,624,159**	1,484,048

The notes on pages 53 to 140 form part of these financial statements.

Consolidated Statement of Financial Position (Continued)

At 31 December 2011 (Expressed in Renminbi)

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Non-current liabilities			
Loans and borrowings	25	**57,462**	103,481
Deferred tax liabilities	27(c)	**54,265**	38,300
Total non-current liabilities		**111,727**	141,781
NET ASSETS		**2,512,432**	1,342,267
CAPITAL AND RESERVES			
Share capital	28	**9,848**	775
Reserves	29	**2,498,848**	1,341,492
Total equity attributable to equity shareholders of the company		**2,508,696**	1,342,267
Non-controlling interests		**3,736**	—
TOTAL EQUITY		**2,512,432**	1,342,267

Approved and authorised for issue by the board of directors on 30 March 2012

Directors

The notes on pages 53 to 140 form part of these financial statements.

Statement of Financial Position

At 31 December 2011 (Expressed in Renminbi)

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
Non-current assets			
Investment in subsidiaries	12	**286,198**	300,815
		286,198	300,815
Current assets			
Deposits, prepayments and other receivables	20	**1,126,502**	641,782
Cash and cash equivalents	22	**281,679**	164
		1,408,181	641,946
Current liabilities			
Deposits received, accruals and other payables	24	**4,909**	84,480
		4,909	84,480
Net current assets		**1,403,272**	557,466
NET ASSETS		**1,689,470**	858,281
CAPITAL AND RESERVES			
Share capital	28	**9,848**	775
Reserves	29	**1,679,622**	857,506
TOTAL EQUITY		**1,689,470**	858,281

Approved and authorised for issue by the board of directors on 30 March 2012

Directors

The notes on pages 53 to 140 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 (Note 28)	Share premium RMB'000 (Note 29(d))	Statutory surplus reserve RMB'000 (Note 29(a))	Foreign currency translation reserve RMB'000 (Note 29(b))	Other reserves RMB'000 (Note 29(c))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010	490	73,190	88,753	17,182	39,514	377,988	597,117	—	597,117
Changes in equity for 2010									
Profit for the year	—	—	—	—	—	340,137	340,137	—	340,137
Other comprehensive loss	—	—	—	(1,721)	—	—	(1,721)	—	(1,721)
Total comprehensive income	—	—	—	(1,721)	—	340,137	338,416	—	338,416
Conversion of convertible notes to preference shares (note 25(b))	285	629,348	—	—	(30,271)	—	599,362	—	599,362
Transfer to statutory surplus reserve	—	—	40,400	—	—	(40,400)	—	—	—
Dividends approved in respect of the previous years (note 29(g))	—	(200,619)	—	—	—	—	(200,619)	—	(200,619)
Equity settled share-based payment transactions (note 26)	—	—	—	—	7,991	—	7,991	—	7,991
At 31 December 2010 and 1 January 2011	775	501,919	129,153	15,461	17,234	677,725	1,342,267	—	1,342,267

The notes on pages 53 to 140 form part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2011 (Expressed in Renminbi)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 (Note 28)	Share premium RMB'000 (Note 29(d))	Statutory surplus reserve RMB'000 (Note 29(a))	Foreign currency translation reserve RMB'000 (Note 29(b))	Other reserves RMB'000 (Note 29(c))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Changes in equity for 2011									
Profit for the year	—	—	—	—	—	306,017	306,017	(264)	305,753
Other comprehensive loss	—	—	—	(40,636)	—	—	(40,636)	—	(40,636)
Total comprehensive income	—	—	—	(40,636)	—	306,017	265,381	(264)	265,117
Contribution from a non-controlling interests holder of a subsidiary (note 12(a)(ii))	—	—	—	—	—	—	—	4,000	4,000
Transfer to statutory surplus reserve	—	—	19,534	—	—	(19,534)	—	—	—
Capitalization issue (note 28(b))	6,552	(6,552)	—	—	—	—	—	—	—
Issuance of shares by share offer (note 28(b))	2,521	893,439	—	—	—	—	895,960	—	895,960
Equity settled share-based payment transactions (note 26)	—	—	—	—	5,088	—	5,088	—	5,088
At 31 December 2011	9,848	1,388,806	148,687	(25,175)	22,322	964,208	2,508,696	3,736	2,512,432

The notes on pages 53 to 140 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011 (Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
		Year ended 31 December	
Operating activities			
Profit for the year		**305,753**	340,137
Adjustments for:			
Net change in fair value of biological assets	17	**(92,707)**	(106,798)
Net finance (income)/costs		**(23,427)**	39,194
Income tax expenses	6(a)	**53,320**	63,555
Equity settled share-based payment transactions	26	**5,088**	7,991
Depreciation of property, plant and equipment		**33,176**	30,102
Amortization of lease prepayments in respect of land use rights		**1,511**	1,453
Net loss on disposal of property, plant and equipment		**341**	949
Amortization of intangible assets		**815**	95
Net loss on disposal of subsidiaries	4(b) & 12(b)	**—**	232
Changes in working capital			
Decrease in inventories		**13,198**	57,209
Increase in trade and bills receivables		**(454,190)**	(126,005)
(Increase)/decrease in deposits, prepayments and other receivables		**(47,779)**	29,337
Increase/(decrease) in trade and bills payables		**71,883**	(126,533)
Increase in deposits received, accruals and other payables		**2,428**	72,484
Decrease/(increase) in pledged deposits		**30,189**	(21,073)
Cash (used in)/generated from operations		**(100,401)**	262,329
The People's Republic of China (the "PRC") income tax paid		**(47,326)**	(33,995)
Non-PRC income tax paid		**(1,305)**	(993)
PRC dividend withholding tax paid		**—**	(7,395)
Net cash (used in)/generated from operating activities		**(149,032)**	219,946

The notes on pages 53 to 140 form part of these financial statements.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2011 (Expressed in Renminbi)

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Investing activities			
Interest received		**8,190**	2,823
Disposal of subsidiaries, net of cash disposed of	12(b)	**—**	21,558
Proceeds from disposal of property, plant and equipment		**3,957**	1,323
Payment for acquisition of property, plant and equipment		**(81,756)**	(60,572)
Payment for acquisition of biological assets		**(38,643)**	(41,530)
Payment for investment in unlisted equity securities		**—**	(15,200)
Prepayment for investment in unlisted equity securities		**—**	(4,250)
Payment for acquisition of intangible assets		**(6,865)**	(552)
Lease prepayments for land use rights		**(6,327)**	(7,371)
Net cash used in investing activities		**(121,444)**	(103,771)
Financing activities			
Net proceeds from issue of ordinary shares		**877,392**	—
Contribution from non-controlling interests		**4,000**	—
Proceeds from new bank loans		**170,445**	460,304
Repayment of bank loans		**(193,046)**	(266,706)
Dividends paid		**—**	(200,619)
Interest paid		**(9,721)**	(9,990)
Net cash generated from/(used in) financing activities		**849,070**	(17,011)
Net increase in cash and cash equivalents		**578,594**	99,164
Cash and cash equivalents at 1 January		**297,652**	200,075
Effect of foreign exchange rate changes		**(10,608)**	(1,587)
Cash and cash equivalents at 31 December	22	**865,638**	297,652

The notes on pages 53 to 140 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi)

1 Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by China Flooring Holding Company Limited (the "Company") and its subsidiaries (together the "Group") is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— biological assets (see note 1(i)); and

— derivative financial instruments (see note 1(f)(ii)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1 Significant Accounting Policies (Continued)

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same was as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

In the Company's statement of financial position, and investment in a subsidiary is stated at cost less impairment losses (see note 1(l)).

(d) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

1 Significant Accounting Policies (Continued)

(d) Translation of foreign currencies (Continued)

The results of foreign operations are translated into Renminbi ("RMB") at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(e) Investments in unlisted equity securities

Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (note 1(l)).

(f) Financial instruments

(i) Non-derivative financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

1 Significant Accounting Policies (Continued)

(f) Financial instruments (Continued)

(i) Non-derivative financial instruments (Continued)

Details of the recognition and measurement of the financial instruments of the Group are summarised below:

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (note 1(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(iii) Loans and borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(iv) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to voting preference share capital at the option of the holder upon the occurrence of certain events, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recorded in the other reserves within equity and is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

1 Significant Accounting Policies (Continued)

(f) Financial instruments (Continued)

(ii) Compound financial instruments (Continued)

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Upon conversion of the convertible notes, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to preference share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained earnings.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital is classified as equity. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (note 1(l)).

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plants and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

1 Significant Accounting Policies (Continued)

(g) Property, plant and equipment (Continued)

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for current and comparative years are as follows:

• Buildings and plant	20–30 years
• Machinery and equipment	5–10 years
• Motor vehicles	5 years
• Office equipment and furniture	3–5 years
• Leasehold improvements	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Construction in progress

Construction in progress represents property, plant and equipment items which are under construction or machinery pending for installation, which is stated at cost less impairment losses (note 1(l)).

Cost comprises direct costs of construction during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete. No depreciation is provided in respect of construction in progress.

1 Significant Accounting Policies (Continued)

(h) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses (note 1(l)).

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is based on the cost of an asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

- Software 5 years
- Patents 7 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(i) Biological assets

Biological assets are measured at its fair value less costs to sell, with any change therein recognised in profit or loss. Costs to sell include all costs that would be necessary to sell the assets, including transportation costs. Standing timber is transferred to inventory at its fair value less estimated costs to sell at the date of harvest.

(j) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated at cost less accumulated amortisation and impairment losses (note 1(l)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of rights which are 50 years.

1 Significant Accounting Policies (Continued)

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of the production overheads based on normal operating capacity.

Net realisable value is 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. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The cost of timber harvested from biological assets is its fair value less estimated costs to sell at the date of harvest, determined in accordance with the accounting policy for biological assets (note 1(i)).

(l) Impairment of assets

(i) Impairment of investments in unlisted equity securities and other receivables

Investments in unlisted equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 Significant Accounting Policies (Continued)

(l) Impairment of assets (Continued)

(i) Impairment of investments in unlisted equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(l)(ii).

- For unlisted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for unlisted equity securities carried at cost are not reversed.

- For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 Significant Accounting Policies (Continued)

(l) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- lease prepayments; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

1 Significant Accounting Policies (Continued)

(l) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Employee benefit

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payment

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(n) Provisions and contingent liabilities

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

1 Significant Accounting Policies (Continued)

(n) Provisions and contingent liabilities (Continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Revenue

(i) Sales of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable. Revenue excludes value added tax or other sales taxes and is after deduction of any returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of timber and wood flooring products, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port of the seller. Generally for such products the buyer has no right of return.

(ii) Trademark and distribution network usage fees

Revenue from trademark and distribution network usage fees is accrued in accordance with the terms of the relevant agreements with reference to the production output and sales volume of the manufacturers of the wood flooring products.

(p) Government grants

Unconditional government grant is recognised in profit or loss when the grant becomes receivable. Other government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

1 Significant Accounting Policies (Continued)

(q) Lease payments

Payments made under operating leases, including lease prepayments in respect of land use rights, are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(r) Finance income and finance costs

Finance income comprises interest income on deposits in banks. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on bank loans and convertible notes.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign exchange gains and losses are reported on a net basis as either financial income or financial cost depending on whether foreign currency movements are in a net gain or loss position.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 Significant Accounting Policies (Continued)

(s) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 Significant Accounting Policies (Continued)

(s) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

1 Significant Accounting Policies (Continued)

(t) Related parties (Continued)

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Changes in Accounting Policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

- Improvements to IFRSs (2010)

This development related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. This development has had no material impact on the contents of these consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Turnover

The principal activities of the Group are manufacturing and sale of wood products, trademark and distribution network usage fees and trading of timber and wood products.

Turnover represents the sales value of goods supplied to customers and income from trademark and distribution network usage fees. Revenue excludes value added tax or other sales taxes and is after deduction of any returns, trade discounts and volume rebates. The amount of each significant category of revenue recognised in turnover is as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Manufacturing and sale of wood products	**1,125,607**	1,088,766
Trademark and distribution network usage fees	**209,284**	202,066
Trading of timber and wood products	**226,094**	333,076
	1,560,985	1,623,908

The Group's customer base is diversified and did not have any customer with whom transactions exceeded 10% of the Group's aggregate revenue for the year ended 31 December 2011 (2010: Nil). Details of concentrations of credit risk arising from these customers are set out in note 30(a).

Further details regarding the Group's principal activities are disclosed in note 11.

4 Other Net Income/Other Operating Expenses

(a) Other net income

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Government grants	2,306	6,860
Others	532	1,116
	2,838	7,976

(b) Other operating expenses

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Loss on disposal of subsidiaries	–	232
Net loss on disposal of property, plant and equipment	341	949
Donations	1,340	1,152
Others	492	394
	2,173	2,727

5 Profit Before Taxation

Profit before taxation is arrived at after (crediting)/charging:

(a) Finance income and finance costs

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Interest income on bank deposits	(8,190)	(2,823)
Net foreign exchange gain	(24,958)	—
Finance income	(33,148)	(2,823)
Interest expense on bank loans	9,721	9,990
Interest expense on convertible notes (note 25(b))	—	30,875
Net foreign exchange loss	—	1,152
Finance costs	9,721	42,017
Net finance (income)/costs recognised in profit or loss	(23,427)	39,194

(b) Staff costs

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Salaries, wages and other benefits	109,886	86,163
Contributions to defined contribution retirement plan	4,544	4,167
Equity settled share-based payment expenses (note 26)	5,088	7,991
	119,518	98,321

Staff costs included directors' and senior management's remuneration.

5 Profit Before Taxation (Continued)

(b) Staff costs (Continued)

The employees of the companies in the PRC participate in a defined contribution retirement scheme operated by the local government whereby the Group is required to contribute to the scheme at rate of 8–10% of the eligible employees' basic salary. The local government authority is responsible for the entire pension obligations payable to the retired employees.

Contributions to the MPF are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The Group and its employees in Hong Kong make monthly mandatory contributions to the Mandatory Provident Fund Scheme at 5% of the employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions from employees and employer are subject to a cap of monthly relevant income of Hong Kong Dollar ("HKD") 20,000.

The Group has no other obligations to make payment of retirement and other post-retirement benefits of its employees other than the contributions described above.

(c) Other items

		Year ended 31 December	
		2011	2010
	Note	**RMB'000**	RMB'000
Cost of inventories*	18	**1,039,970**	1,113,479
Recognition/(reversal) of impairment losses for receivables	19(b)	**5,963**	(3,003)
Depreciation		**33,176**	30,102
Amortization			
— lease prepayments		**1,511**	1,453
— intangible assets		**815**	95
Net loss on disposal of property, plant and equipment		**341**	949
Operating lease charges		**8,034**	4,074
Auditors' remuneration		**4,503**	4,603

* For the year ended 31 December 2011, cost of inventories includes RMB74,820,000 (2010: RMB73,566,000) relating to staff costs, depreciation and operating lease charges, amounts of which are also included in the respective total amounts disclosed separately above or in note 5(b) for each types of expenses.

6 Income Tax in the Consolidated Income Statement

(a) Income tax in the consolidated income statement represents:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Current tax		
Provision for PRC income tax (note 27(a))	**40,519**	45,595
Provision for Hong Kong Profits Tax (note 27(a))	**—**	294
Provision for income tax from subsidiaries in other jurisdictions (note 27(a))	**935**	1,620
Provision for PRC dividend withholding tax (note 27(a))	**—**	7,395
	41,454	54,904
Deferred tax		
Origination and reversal of temporary differences (note 27(b))	**11,866**	8,651
	53,320	63,555

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December	
	2011 RMB'000	2010 RMB'000
Profit before taxation	**359,073**	403,692
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	**87,272**	111,052
Tax effect of non-deductible expenses	**1,668**	1,769
Tax effect of non-taxable income (ii)	**(23,822)**	(27,930)
Deferred tax recognised at different tax rates	**(412)**	(4,284)
Tax effect of un-recognised tax loss	**4,273**	2,402
Tax effect of reversal of un-recognised temporary difference	**(24)**	(1,172)
Effect of tax concessions (iii)	**(31,782)**	(38,486)
Tax effect of withholding tax on distributable profits (iv)	**16,147**	20,204
Income tax expense	**53,320**	63,555

6 Income Tax in the Consolidated Income Statement (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (Continued)

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for United States profits tax as the Group had no assessable profits subject to United States Profits Tax for the years ended 31 December 2011 and 2010.

No provision for Hong Kong Profits Tax for the year ended 31 December 2011 (2010: RMB294,000) as the Group had no assessable profits subject to Hong Kong Profits Tax.

The Group's subsidiaries incorporated in Macau were subject to income tax at progressive rates from 9% to 12% for profits higher than Macau Pataca ("MOP") 200,000 on an annual basis for the years ended 31 December 2011 and 2010.

The Group's subsidiaries incorporated in Peru were subject to income tax rates of 5% for the years ended 31 December 2011 and 2010.

The PRC's statutory income tax rate is 25% for the years ended 31 December 2011 and 2010.

(ii) For the year ended 31 December 2011, the tax effect of non-taxable income of RMB23,822,000 (2010: RMB27,527,000) mainly consists of gains from change in fair value of biological assets (note 17) recorded by Jiangxi Forest. According to relevant Corporate Income Tax Law in the PRC, income derived from projects in the forestry industry is exempted from Corporate Income Tax.

(iii) Prior to 1 January 2008, some of the Group's PRC entities, being manufacturing foreign invested enterprises, were each entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the income tax rate commencing from their respective first profit-making years from a PRC tax perspective ("2+3 tax holiday").

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "CIT Law"), which was effective on 1 January 2008. The CIT Law and its relevant regulations grandfathered the 2+3 tax holidays until their expiry. Accordingly, the following preferential tax rates are noted for certain entities of the Group in the PRC:

- Nature (Zhongshan) Wood Industry Co., Ltd. ("Zhongshan Nature") is subject to income tax at 12.5% from 2008 to 2010;
- Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. ("Kunshan Nature") is subject to income tax at 12.5% from 2010 to 2012; and
- Guangdong Yingran Wood Industry Co., Ltd. ("Guangdong Yingran") is subject to income tax at 12.5% from 2009 to 2011.

6 Income Tax in the Consolidated Income Statement (Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (Continued)

(iv) According to the CIT Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding income tax at 10% for profits earned since 1 January 2008, unless reduced by tax treaties or arrangements. Pursuant to the Sino-Hong Kong Double Tax Arrangement and Sino-Macau Double Tax Arrangement and the related regulations, a qualified Hong Kong or Macau tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong or Macau tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. The Group has adopted the 5% withholding tax rate for PRC withholding tax purposes.

Pursuant to the Corporate Income Tax Law of Peru, overseas investors of the domiciled legal entities shall be liable for withholding income tax at 4.1%.

7 Directors' Remuneration

The details of directors' remuneration are disclosed as follows:

Year ended 31 December 2011

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Equity settled share-based payment expenses RMB'000	Total RMB'000
Executive directors							
Mr. Se Hok Pan	2,253	246	–	–	2,499	–	2,499
Ms. Un Son I	–	218	1,496	–	1,714	–	1,714
Mr. Chow Chi Keung	–	184	1,210	–	1,394	–	1,394
Mr. She Jian Bin	–	175	352	7	534	–	534
Non-executive directors							
Mr. Homer Sun	–	–	–	–	–	–	–
Mr. Eddy Huang	–	–	–	–	–	–	–
Independent non-executive directors							
Mr. Li Kwok Cheung	97	–	–	–	97	–	97
Mr. Zhang Sen Lin	97	–	–	–	97	–	97
Mr. Chan Siu Wing	97	–	–	–	97	–	97
Mr. Ho King Fung	97	–	–	–	97	–	97
	2,641	823	3,058	7	6,529	–	6,529

7 Directors' Remuneration (Continued)

Year ended 31 December 2010

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-total RMB'000	Equity settled share-based payment expenses RMB'000	Total RMB'000
Executive directors							
Mr. Se Hok Pan	2,298	245	—	—	2,543	—	2,543
Ms. Un Son I	—	228	1,526	—	1,754	—	1,754
Mr. Chow Chi Keung	—	285	1,234	—	1,519	—	1,519
Mr. She Jian Bin	—	154	359	7	520	—	520
Non-executive directors							
Mr. Homer Sun	—	—	—	—	—	—	—
Mr. Eddy Huang	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Li Kwok Cheung	—	—	—	—	—	—	—
Mr. Zhang Sen Lin	—	—	—	—	—	—	—
Mr. Chan Siu Wing	—	—	—	—	—	—	—
Mr. Ho King Fung	—	—	—	—	—	—	—
	2,298	912	3,119	7	6,336	—	6,336

8 Individual with Highest Emoluments

During the year ended 31 December 2011, three of the five highest paid individuals were also the directors of the Company (2010: three).

The remuneration of the remaining individuals is as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Salaries and other emoluments	**935**	800
Discretionary bonuses	**1,369**	1,364
Equity settled share-based payment expenses	**630**	843
	2,934	3,007

The emoluments of these remaining individuals with the highest emoluments are within the following bands:

	Year ended 31 December	
	2011	2010
HKD	Number of individuals	Number of individuals
1,000,000–1,500,000	**1**	1
2,000,000–2,500,000	**1**	1

9 Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB2,297,000 (2010: loss of RMB63,151,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the Company's financial statements	**2,297**	(63,151)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**–**	258,551
Company's profit for the year (note 29)	**2,297**	195,400

Details of dividends paid and payable to equity shareholders of the Company are set out in note 29(g).

10 Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company	**306,017**	340,137
Dividends on preference shares	**–**	(75,232)
Profit attributable to ordinary equity shareholders of the Company	**306,017**	264,905

10 Earnings Per Share (Continued)

(a) Basic earnings per share (Continued)

(ii) Weighted average number of ordinary shares

	Year ended 31 December	
	2011	2010
	'000	'000
Issued ordinary shares at 1 January	**70,000**	70,000
Effect of conversion of preference shares to ordinary shares (note28(b)(ii))	**26,005**	—
Effect of capitalisation issue (note28(b)(i))	**1,008,000**	1,008,000
Effect of issuance of shares by share offer (note 28(b)(i))	**234,023**	—
Weighted average number of ordinary shares at 31 December	**1,338,028**	1,078,000

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit attributable to ordinary equity shareholders after adjusting for the effects of all dilutive potential shares under the Company's share option plan and convertible preference share. During the year ended 31 December 2010, the effects of share options and contingently issuable shares are anti-dilutive. The calculation of diluted earnings per share is based on the following data:

Weighted average number of ordinary shares (diluted)

	Year ended 31 December	
	2011	2010
	'000	'000
Weighted average number of ordinary shares at 31 December	**1,338,028**	1,078,000
Effect of deemed conversion of convertible preference shares	**15,995**	—
Effect of deemed issue of shares under the Company's share option plan for nil consideration (note 26)	**32**	—
Weighted average number of ordinary shares (diluted) at 31 December	**1,354,055**	1,078,000

11 Segment Reporting

The Group manages its business by different lines of businesses and geographical locations. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Manufacturing and sale of wood products: this segment primarily consists of manufacturing and sale of wood products

- Trademark and distribution network usage fees: this segment primarily consists of fees income for products manufactured by OEM companies but sold under the trademarks and distribution network owned by the Group

- Trading of timber and wood products: this segment primarily consists of trade and export of timber and wood products

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "profit from operations". To arrive at "profit from operations", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs and net change in fair value of biological assets.

Segment assets and liabilities are not regularly reported to the Group's chief operating decision maker and therefore information of reportable segment assets and liabilities are not presented in the consolidated financial statements.

11 Segment Reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance are set out below:

	Manufacturing and sale of wood products		Trademark and distribution network usage fees		Trading of timber and wood products		Total	
	Year ended 31 December		Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2011	2010	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers (note 3)	1,125,607	1,088,766	209,284	202,066	226,094	333,076	1,560,985	1,623,908
Inter-segment revenue	1,350	3,185	–	–	–	15,022	1,350	18,207
Reportable segment revenue	1,126,957	1,091,951	209,284	202,066	226,094	348,098	1,562,335	1,642,115
Reportable segment profit	136,763	191,130	110,671	137,787	12,252	15,181	259,686	344,098
Depreciation and amortization for the year	(27,280)	(26,791)	–	–	(2,963)	(1,237)	(30,243)	(28,028)
Net impairment losses for trade receivables charged for the year	4,645	2,915	–	–	1,318	88	5,963	3,003

11 Segment Reporting (Continued)

(b) Reconciliations of reportable segment revenues and profits

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	**1,562,335**	1,642,115
Elimination of inter-segment revenue	**(1,350)**	(18,207)
Consolidated revenue	**1,560,985**	1,623,908

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit		
Reportable segment profit	**259,686**	344,098
Elimination of inter-segment profits	**—**	(91)
Reportable segment profit derived from external customers	**259,686**	344,007
Other net income	**2,838**	7,976
Net change in fair value of biological assets	**92,707**	106,798
Other operating expenses	**(2,173)**	(2,727)
Depreciation and amortization	**(5,259)**	(3,622)
Net finance income/(costs)	**23,427**	(39,194)
Unallocated head office and corporate expenses	**(12,153)**	(9,546)
Consolidated profit before taxation	**359,073**	403,692

11 Segment Reporting (Continued)

(c) Geographic information

Analysis of the Group's turnover by geographical market has not been presented as substantially all the Group's turnover is generated in the PRC, Hong Kong and Macau (together the "PRC region").

The following table sets out information about the geographical location of the Group's fixed assets, lease prepayments, intangible assets and biological assets ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, lease prepayments and biological assets, and the location of the operation to which they are allocated, in the case of intangible assets.

	At 31 December	
	2011	2010
	RMB'000	RMB'000
Specified non-current assets		
The PRC Region	**723,520**	563,406
Peru	**107,252**	105,988
USA	**49**	71
	830,821	669,465

12 Investments in Subsidiaries

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**286,198**	300,815

(a) List of subsidiaries

As at 31 December 2011, the Company had direct or indirect interests in the following subsidiaries, all of which are private limited companies or, if incorporated/established outside Hong Kong have substantially the same characteristics as a Hong Kong private company. The particulars of the Company's subsidiaries are set out below:

Name of company	Place and date of incorporation/establishment	Authorised capital/paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
China Wood Flooring Holding Company Limited 中國木地板控股有限公司	the British Virgin Islands 9 August 2007	United Stated Dollars ("USD") 50,000/ USD2	100%	–	Investment holding
Ample Connect Limited	the British Virgin Islands 22 September 2011	USD50,000/USD1	–	100%	Investment holding
Nature Flooring (Europe) Limited 大自然地板(歐洲)有限公司	the British Virgin Islands 14 October 2011	USD50,000/USD1	–	100%	Investment holding
Great Nature Investments and Holdings Company Limited 大自然投資控股有限公司	Macau 4 February 2004	MOP100,000/ MOP100,000	–	100%	Brand's holding
YS Nature International Trading Co., Ltd. ("YS Nature") 盈順國際貿易有限公司	Macau 20 October 2006	MOP50,000/ MOP50,000	–	100%	Investment holding and trading of wood cores and wood flooring
Grace Glory Limited 悅亮有限公司	Hong Kong 30 September 2005	HKD10,000/HKD2	–	100%	Investment holding and trading of wood flooring
Good Harvest Worldwide Limited 豐收環球有限公司	Hong Kong 24 October 2007	HKD10,000/HKD1	–	100%	Dormant
Asia Legend Industrial Limited 景駿實業有限公司	Hong Kong 7 December 2007	HKD10,000/HKD1	–	100%	Investment holding
Prime World International Investment Limited 栢匯國際投資有限公司	Hong Kong 22 January 2008	HKD10,000/HKD1	–	100%	Investment holding and trading of wood cores

(Expressed in Renminbi)

12 Investments in Subsidiaries (Continued)

(a) List of subsidiaries (Continued)

Name of company	Place and date of incorporation/establishment	Authorised capital/paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Fortune Team International Limited 富添國際有限公司	Hong Kong 11 February 2008	HKD10,000/ HKD1	–	100%	Investment holding
Nature Flooring Holding Company Limited 大自然地板控股有限公司	Hong Kong 11 February 2008	HKD10,000/ HKD2	–	100%	Investment holding and trading of wood floorings
Cheerway Industrial Limited 捷偉實業有限公司	Hong Kong 11 February 2008	HKD10,000/ HKD100	–	100%	Investment holding and trading of wood cores and wood flooring
Ever Sharp Industrial Limited 國耀實業有限公司	Hong Kong 25 February 2008	HKD10,000/ HKD100	–	100%	Investment holding and trading of wood flooring
China Flooring Trading Company Limited 中國地板貿易有限公司	Hong Kong 5 September 2008	HKD10,000/HKD1	–	100%	Investment holding
Sun Pine Investment Limited 柏耀投資有限公司	Hong Kong 10 March 2009	HKD10,000/HKD1	–	100%	Investment holding and trading of wood cores
Nature Casa Holding Company Limited 大自然家居控股有限公司	Hong Kong 19 November 2010	HKD10,000/HKD1	–	100%	Investment holding and trading of wood cores
Nature Desenberg Holding Company Limited 大自然德森堡木門控股有限公司	Hong Kong 6 July 2011	HKD10,000/HKD1	–	100%	Investment holding
Nature Vanessa Holding Company Limited 大自然溫莎堡櫥衣櫃控股有限公司	Hong Kong 5 July 2011	HKD10,000/HKD1	–	100%	Investment holding
Zhongshan Nature 中山市大自然木業有限公司 (i)	the PRC 13 October 2004	USD6,150,000/ USD6,150,000	–	100%	Wood flooring manufacturing
Kunshan Nature 昆山盈意大自然木業有限公司 (i)	the PRC 29 December 2006	USD9,600,000/ USD9,600,000	–	100%	Wood flooring manufacturing
Guangdong Yingran 廣東盈然木業有限公司 (i)	the PRC 16 January 2007	USD9,000,000/ USD9,000,000	–	100%	Wood flooring manufacturing
Nature (Zhangjiagang) Wood Industry Co., Ltd. 大自然(張家港)木業有限公司 (i)	the PRC 3 March 2008	USD10,000,000/ USD10,000,000	–	100%	Wood flooring manufacturing
Jiangxi Nature Wood Based Panels Co., Ltd. 江西大自然人造板有限公司 (i)	the PRC 22 April 2008	USD10,000,000/ USD10,000,000	–	100%	Artificial board manufacturing
Jiangxi Yingran Wood Industry Co., Ltd. 江西盈然地板有限公司 (i)	the PRC 15 July 2008	USD10,000,000/ USD10,000,000	–	100%	Floorboard manufacturing

(Expressed in Renminbi)

12 Investments in Subsidiaries (Continued)

(a) List of subsidiaries (Continued)

Name of company	Place and date of incorporation/establishment	Authorised capital/paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Jiangxi Yingran Forest Development Co., Ltd. ("Jiangxi Forest") 江西盈然林業發展有限公司 (i)	the PRC 30 June 2009	USD5,000,000/ USD3,450,000	–	100%	Extraction and sale of timber and forest operations
Nature Flooring (China) Co., Ltd. ("Nature China") 大自然家居(中國)有限公司 (i)	the PRC 18 December 2009	RMB50,000,000/ RMB50,000,000	–	100%	Trading of wood flooring
Zhuhai Nature Baigao Wood Industry Co., Ltd ("Nature Baigao") 珠海大自然柏高木業有限公司 (ii)	the PRC 13 September 2011	RMB10,000,000/ RMB10,000,000	–	60%	Research, development, manufacturing and sales of wood doors
Taizhou Nature Desenberg Wood Industry Co., Ltd 泰州大自然德森堡木業有限公司 (i)	the PRC 13 December 2011	USD20,000,000/ USD Nil	–	100%	Research, development, manufacturing and sales of wood doors
Nature Flooring Industries Inc. ("Nature Flooring")	the United States of America (the "USA") 7 May 2007	USD10,000/ USD10,000	–	100%	Trading of wood flooring
Nature Wood (Peru) S.A.C.	Peru 17 March 2008	Peruvian Nuevo Sol ("PEN") 500,000/ PEN500,000	–	100%	Trading of woodi flooring
Nature America S.A.C.	Peru 13 March 2008	PEN500,000/ PEN500,000	–	100%	Trading of wood flooring, extraction and sale of timber and forest operations

(i) These subsidiaries are wholly foreign owned enterprises ("WFOEs") established in the PRC and the official names of these companies are in Chinese. The English translation of these companies' names is for reference only.

(ii) Nature Baigao was incorporated on 13 September 2011 by Nature China and a third party, Guangdong Guangxin PACO Technology Co., Ltd ("Guangxin PACO") with a registered capital of RMB10,000,000. Nature China and Guangxin PACO had made capital payment of RMB6,000,000 and RMB4,000,000 on 1 September 2011 and 31 August 2011 respectively. As of 31 December 2011 Nature China and Guangxin PACO held 60% and 40% equity interests in Nature Baigao respectively.

The English translation of Nature Baigao's name is for reference only.

12 Investments in Subsidiaries (Continued)

(b) Disposal of subsidiaries

On 9 December 2010, Wood Flooring entered into an equity disposal agreement with Jumbo Hawk Immigration Consultancy Limited (the "Buyer"), an independent third party, to dispose of its entire equity interests in a former subsidiary Asia Hero Enterprises Limited ("Asia Hero") to the Buyer for a consideration of HKD48,000,000 (equivalent to RMB41,189,000 at the date of agreement). Asia Hero held the entire equity interests in another former subsidiary Yingtai (Hailin) Wood Industry Co., Ltd ("Hailin Yingtai"). The principal activity of Hailin Yingtai was manufacturing and sales of wood flooring. The transaction was completed on 10 December 2010.

	Net book value as of the disposal date RMB'000
Cash and cash equivalents	19,631
Trade and other receivables	378
Inventories	2,168
Property, plant and equipment (note 14)	26,283
Deferred tax assets (note 27(b))	1,627
Trade and other payables	(8,666)
Net identifiable assets	41,421
Consideration received, satisfied in cash	(41,189)
Loss on disposal (note 4(b))	232
Consideration received	41,189
Cash disposed of	(19,631)
Net cash inflow	21,558

13 Investments in unlisted Equity Securities

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Unlisted equity securities	**19,450**	15,200

At 31 December 2011, the Group had direct equity interest in the following unlisted PRC incorporated entities:

Name of company	Place and date of establishment	Authorised capital/paid-up capital	Direct equity interest	Principal activities
Liaoning Tai'an Yingfu Xinsheng Flooring Co., Ltd. 遼寧台安盈福新盛地板有限公司*	the PRC 14 July 2010	RMB40,000,000/ RMB40,000,000	19%	Manufacturing and trading of wood flooring
Hubei Xiangfan Yingfu Xinsheng Flooring Co., Ltd. 湖北襄樊盈福新盛地板有限公司*	the PRC 15 July 2010	RMB40,000,000/ RMB40,000,000	19%	Manufacturing and trading of wood flooring
Lejia Chengpin (Beijing) Technology Co., Ltd. 樂嘉誠品(北京)科技有限公司*	the PRC 11 January 2011	RMB25,000,000/ RMB25,000,000	17%	Trading of goods, provision of marketing and technical services

* The English translation of these companies' names is for reference only.

14 Property, Plant and Equipment

	Buildings & plant RMB'000	Machinery & equipment RMB'000	Motor vehicles RMB'000	Office equipment & furniture RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2010	134,670	219,877	6,950	6,898	28,788	397,183
Additions	1,058	9,762	13,696	717	17,016	42,249
Transfer from construction in progress	31,756	6,476	—	—	(38,232)	—
Disposal of subsidiaries (note)	(23,113)	(5,685)	(568)	(602)	—	(29,968)
Disposals	(88)	(2,338)	(418)	(879)	—	(3,723)
At 31 December 2010	144,283	228,092	19,660	6,134	7,572	405,741
At 1 January 2011	**144,283**	**228,092**	**19,660**	**6,134**	**7,572**	**405,741**
Additions	**1,115**	**19,227**	**4,020**	**3,320**	**39,947**	**67,629**
Transfer from construction in progress	**14,616**	**15,771**	**—**	**139**	**(30,526)**	**—**
Exchange adjustments	**—**	**(1)**	**(89)**	**1**	**—**	**(89)**
Disposals	**—**	**(5,440)**	**(206)**	**(81)**	**—**	**(5,727)**
At 31 December 2011	**160,014**	**257,649**	**23,385**	**9,513**	**16,993**	**467,554**
Accumulated depreciation:						
At 1 January 2010	(3,992)	(17,010)	(1,885)	(2,927)	—	(25,814)
Charge for the year	(5,194)	(21,236)	(2,510)	(1,162)	—	(30,102)
Exchange adjustments	—	—	—	(1)	—	(1)
Disposal of subsidiaries (note)	1,757	1,354	312	262	—	3,685
Disposals	1	325	273	852	—	1,451
At 31 December 2010	(7,428)	(36,567)	(3,810)	(2,976)	—	(50,781)
At 1 January 2011	**(7,428)**	**(36,567)**	**(3,810)**	**(2,976)**	**—**	**(50,781)**
Charge for the year	**(5,512)**	**(22,136)**	**(4,226)**	**(1,302)**	**—**	**(33,176)**
Exchange adjustments	**—**	**—**	**2**	**(2)**	**—**	**—**
Disposals	**—**	**1,292**	**102**	**35**	**—**	**1,429**
At 31 December 2011	**(12,940)**	**(57,411)**	**(7,932)**	**(4,245)**	**—**	**(82,528)**
Carrying amounts:						
At 31 December 2011	**147,074**	**200,238**	**15,453**	**5,268**	**16,993**	**385,026**
At 31 December 2010	136,855	191,525	15,850	3,158	7,572	354,960

14 Property, Plant and Equipment (Continued)

The Group's buildings are located in the PRC.

As at 31 December 2011, property, plant and equipment with net carrying amount of RMB91,937,000 (2010: RMB102,918,000) were pledged for loans and borrowings (note 25(a)).

Note: On 10 December 2010, the Group disposed of its entire equity interests in Asia Hero and Hailin Yingtai. The aggregate net book value of the fixed assets held by Asia Hero and Hailin Yingtai as of the disposal date were RMB26,283,000 (note 12(b)).

15 Intangible Assets

	Patents RMB'000	Computer software RMB'000	Total RMB'000
Cost:			
At 1 January 2010	—	219	219
Additions	—	552	552
At 31 December 2010	—	771	771
At 1 January 2011	—	771	771
Additions	3,512	3,353	6,865
At 31 December 2011	**3,512**	**4,124**	**7,636**
Accumulated amortisation:			
At 1 January 2010	—	54	54
Charge for the year	—	95	95
At 31 December 2010	—	149	149
At 1 January 2011	**—**	**149**	**149**
Charge for the year	**680**	**135**	**815**
At 31 December 2011	**680**	**284**	**964**
Carrying amount:			
At 31 December 2011	**2,832**	**3,840**	**6,672**
At 31 December 2010	—	622	622

The amortisation of intangible assets is included in the administrative expenses.

16 Lease Prepayments

	Land use rights RMB'000
Cost:	
At 1 January 2010	63,948
Additions	7,371
At 31 December 2010, 1 January 2011 and 31 December 2011	71,319
Accumulated amortisation:	
At 1 January 2010	2,194
Amortisation for the year	1,453
At 31 December 2010	3,647
At 1 January 2011	3,647
Amortisation for the year	1,511
At 31 December 2011	5,158
Carrying amounts:	
At 31 December 2011	66,161
At 31 December 2010	67,672

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At 31 December 2011, the remaining period of the land use rights ranges from 45 to 49 years (2010: 46 to 50 years).

As at 31 December 2011, lease prepayments with carrying amount of RMB21,895,000 (2010: RMB22,314,000) were pledged for loans and borrowings (note 25(a)).

Amortisation of lease prepayments is included in cost of sales and the administrative expenses.

17 Biological Assets

	Standing timber RMB'000
Balance at 1 January 2010	100,848
Increase due to acquisitions	41,530
Net change in fair value less estimated cost to sell	106,798
Effect of movements in exchange rate	(2,965)
Balance at 31 December 2010	246,211
Balance at 1 January 2011	**246,211**
Increase due to acquisitions	**38,643**
Net change in fair value less estimated cost to sell	**92,707**
Effect of movements in exchange rate	**(4,599)**
Balance at 31 December 2011	**372,962**

As at 31 December 2011, the Group's biological assets represents the concession rights in Peru to harvest standing timber in 46,347 hectares of natural forest in Peru for 40 years up to 2045, the concession rights to harvest standing timber in 4,445 hectares of natural forest in Yunnan Ninglang for a period through the year 2060 or 2078 and the concession rights to harvest standing timber in 3,718 hectares of natural forest in Yunnan Yingjiang for a period through the year 2041 or 2042.

During the years ended 31 December 2011 and 2010, the Group did not harvest or sell any round logs.

The fair value of the standing timber as at 31 December 2011 and 2010 was valued by an independent valuation firm engaged by the Group, Pöyry (Beijing) Consulting Company Limited, Shanghai Branch ("Pöyry"). Pöyry has applied the net present value approach whereby projected future net cash flows, based on the international timber log prices, were discounted according to the harvest plans for the standing timber to provide a current market value of the biological assets. The discount rate adopted for the Peru, Yunnan Ninglang and Yunnan Yingjiang forest is 12.0%, 11.5% and 11.5% respectively.

The discount rate used in the valuation of the standing timber at the end of the reporting period was determined by reference to discount rates of companies that carry out similar business activities, weighted average cost of capital analysis and the implied discount rate of forest transactions over a period of time and after considering the risks associated with operating a venture in Peru and Yunnan.

17 Biological Assets (Continued)

The principal valuation methodology and assumptions adopted are as follows:

— A stand-based approach was employed whereby the standing timber is scheduled to be harvested:

  • At or near their optimum economic rotation age in respect of the Chinese forest; and

  • Based on a sustainable forest management system in respect of the Peru forest.

— The cash flows are those arising from the current rotation of trees only. No account was taken of revenue or costs from re-establishment following harvest, or of land not yet planted;

— The cash flows do not take into account income taxation and finance costs;

— The cash flows have been prepared in real terms and have not therefore included inflationary effects;

— The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forest is not taken into account; and

— Costs are current average costs. No allowance has been made for cost improvements in future operations.

The Group is exposed to a number of risks related to its standing timber:

Regulatory and environmental risks

The Group is subject to laws and regulations in Peru and Yunnan in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of sawn timber. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and other risks

The Group's standing timbers is exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

18 Inventories

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Raw materials	83,610	72,246
Work in progress	27,251	45,129
Finished goods	142,353	148,688
Spare parts and consumables	13,224	13,573
	266,438	279,636

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Carrying amount of inventories sold	1,043,297	1,121,229
Write-downs of inventories	(3,327)	(7,750)
	1,039,970	1,113,479

19 Trade and Bills Receivables

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade debtors	**798,915**	430,941
Bills receivable (note)	**176,769**	72,470
Less: allowance for doubtful debts (note 19(b))	**(11,578)**	(5,615)
	964,106	497,796

All of the trade and bills receivables are expected to be recovered within one year.

Note: As at 31 December 2011, RMB126,622,000 bills receivable (2010: RMB18,500,000) has been pledged to banks as security in connection with certain banking facilities (note 25(a)(i)).

(a) Ageing analysis

The ageing analysis of trade and bills receivables (net of allowance for doubtful debts) as of the end of the reporting period is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Current	**774,642**	422,593
Less than 3 months past due	**89,272**	67,161
More than 3 months but less than 12 months past due	**90,472**	8,042
More than 12 months past due	**9,720**	—
Amounts past due	**189,464**	75,203
	964,106	497,796

19 Trade and Bills Receivables (Continued)

(a) Ageing analysis (Continued)

Trade debtors and bills receivable are usually due within 30–180 days from the date of billing. Customers from trademark and distribution network usage are due within 180 days from the date of billing, these customers manufacture and sell the products under the trademarks and distribution network owned by the Group. These customers are responsible for their own raw materials procurement and other costs incurred in the manufacturing processes. The Group charges them trademark and distribution network usage fees accordingly. Generally, these customers will collect the amounts from their customers before settlement to the Group. Further details on the Group's credit policy are set out in note 30(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (note 1(l)(i)).

The movement in the allowance for doubtful debts during current year, including both specific and collective loss components, is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Balance at 1 January	**5,615**	9,309
Impairment loss recognised during the year	**8,458**	3,212
Reversal of impairment loss during the year	**(2,495)**	(6,215)
Uncollectible amounts written off during the year	**—**	(691)
Balance at 31 December	**11,578**	5,615

At 31 December 2011, the Group's trade receivables of RMB12,594,000 (2010: RMB6,079,000) were individually determined to be impaired. The individually impaired receivables related to customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB11,578,000 as at 31 December 2011 were recognised (2010: RMB5,615,000).

19 Trade and Bills Receivables (Continued)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	774,517	422,428
Less than 3 months past due	88,434	66,977
More than 3 months but less than 12 months past due	90,419	7,927
More than 12 months past due	9,720	—
	188,573	74,904
	963,090	497,332

Receivables that were neither past due nor impaired relate to wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and balances are still considered fully recoverable.

20 Deposits, Prepayments and Other Receivables

The Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Deposits	3,134	1,081
Prepayments for purchase of raw materials	58,176	16,171
Prepayments for purchase of plant and equipment	17,930	3,237
Prepayments for purchase of land use right	6,327	—
Prepayments for investment in unlisted equity securities (note)	—	4,250
Value added tax recoverable	7,518	24,466
Other prepayments and receivables	41,203	20,534
	134,288	69,739

Note: As at 31 December 2010, a prepayment of RMB4,250,000 was made by the Group for establishment of a PRC entity with registered capital of RMB25,000,000. The principal activities of the investee are trading of goods, provision of marketing and technical services. After the completion of the establishment on 11 January 2011, the Group holds 17% equity interests in the investee.

An analysis of current and non-current portion of deposits, prepayments and other receivables is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Non-current	24,257	3,237
Current	110,031	66,502
	134,288	69,739

20 Deposits, Prepayments and Other Receivables (Continued)

The Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Amounts due from subsidiaries	**1,126,270**	641,089
Other prepayments and receivables	**232**	693
	1,126,502	641,782

All of the deposits, prepayments and other receivables (including amounts due from subsidiaries), apart from those classified as non-current portion, are expected to be recovered or recognised as expense within one year.

21 Pledged Deposits

As at 31 December 2011, deposits of RMB13,273,000 (2010: RMB43,462,000) were placed with banks as securities for the issuance of letter of credit for construction projects and purchase of raw materials.

22 Cash and Cash Equivalents

The Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cash in hand	**143**	152
Deposits with banks and other financial institutions	**865,495**	297,500
Cash and cash equivalents	**865,638**	297,652

22 Cash and Cash Equivalents (Continued)

The Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Cash at bank and in hand	**281,679**	164

23 Trade and Bills Payables

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Trade creditors	**136,478**	61,346
Bills payable	**17,708**	20,957
	154,186	82,303

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

The ageing analysis of trade and bills payable as of the end of the reporting period is as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Due within 1 month or on demand	**90,992**	60,666
Due after 1 month but within 3 months	**50,623**	14,293
Due after 3 months but within 6 months	**9,676**	4,279
Due after 6 months but within 12 months	**2,895**	3,065
	154,186	82,303

24 Deposits Received, Accruals and Other Payables

The Group

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Payables for purchase of property, plant and equipment	**8,165**	7,599
Advanced payments and deposits received from customers	**37,906**	38,474
Accrued staff costs	**16,270**	17,078
Value added tax, business tax and consumption tax payable	**13,333**	12,457
Accrued professional fees	**1,950**	8,910
Accrued transportation fees	**16,937**	13,433
Accrued advertising fees	**—**	212
Others payables and accruals	**19,517**	12,921
	114,078	111,084

The Company

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Others payables and accruals	**4,909**	84,480

All of the deposits received, accruals and other payables are expected to be settled or recognised as income within one year or repayable on demand.

25 Loans and Borrowings

(a) Bank loans

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Current:		
— secured (note (i))	143,004	55,719
— unsecured (note (ii))	57,987	127,739
	200,991	183,458
Non-current:		
— secured (note (i))	35,492	52,852
— unsecured (note (ii))	21,970	50,629
	57,462	103,481
	258,453	286,939

Notes:

(i) At the end of the reporting period, loans and borrowings were secured by the following assets of the Group:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Property, plant and equipment (note 14)	91,937	102,918
Lease prepayments (note 16)	21,895	22,314
Bills receivable (note 19)	126,622	18,500
	240,454	143,732

The above-mentioned secured loan facilities, totalling RMB178,496,000 as at 31 December 2011 (2010: RMB108,571,000), were fully utilised as at 31 December 2011 and 2010.

25 Loans and Borrowings (Continued)

(a) Bank loans (Continued)

Notes: (Continued)

(ii) At 31 December 2011, bank loans amounted to RMB79,957,000 were guaranteed by the Company . These bank loans were guaranteed by Mr. Se Hok Pan, Ms. Un Son I and the Company as at 31 December 2010.

At 31 December 2011, a bank loan of RMB662,000 (2010: RMB26,910,000) is subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 30(b). At 31 December 2011 and 31 December 2010, none of the covenants relating to drawn down facilities had been breached.

Unutilised unsecured loan facilities as at 31 December 2011 amounted to RMB452,310,000 (2010: RMB390,463,000).

(iii) All of the non-current bank loans are carried at amortized cost. None of the non-current bank loans is expected to be settled within one year.

(b) Convertible notes

The Group and the Company

	Convertible notes RMB'000
Carrying amount of liability at 1 January 2010	571,670
Accreted interest	30,875
Exchange difference	(3,183)
Conversion of convertible notes to voting preference shares (non-cash transaction)	(599,362)
Carrying amount of liability at 31 December 2010, 1 January 2011 and 31 December 2011	—

Pursuant to convertible note purchase agreements, the Company issued convertible notes (the "Notes") in the amount of USD$70 million to investors (the "Holders") in May 2008.

On 30 June 2010, the Holders fully converted the Notes into 41,999,999 voting preference shares in the Company. Along with the conversion, the capital reserve, together with the carrying amount of the liability component at the time of conversion, was transferred to preference share capital and share premium as consideration for the shares issued.

26 Share-based Payments

The analysis of the amount of share-based payments recognised as an expense and included in profit and loss is as follows:

		Year ended 31 December	
		2011	2010
	Note	RMB'000	RMB'000
Share-based payment transactions			
— 2008 Share option plan	(a)	**119**	2,894
— 2010 Share option plan	(b)	**4,969**	5,097
		5,088	7,991

(a) The 2008 share option plan

The Company adopted a share option scheme on 16 December 2008 (the "Pre-IPO Share Option Scheme"). On 17 December 2008, share options were granted under the Pre-IPO Share Option Scheme whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at consideration of HKD1 (equivalent to RMB0.882 at the date of grant). Each option entitles the option holders to subscribe one ordinary share of the Company (the "2008 Option").

26 Share-based Payments (Continued)

(a) The 2008 share option plan (Continued)

(i) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Vesting period	Exercise period	Options granted Directors '000	Employees '000	Total '000
17 December 2008	17 December 2008 to 30 December 2008	26 November 2012 to 16 December 2018	—	1,698	1,698
	17 December 2008 to 30 December 2009	26 November 2012 to 16 December 2018	—	1,698	1,698
	17 December 2008 to 30 December 2011	26 November 2012 to 16 December 2018	—	3,394	3,394
	17 December 2008 to 30 December 2012	31 December 2012 to 16 December 2018	—	5,093	5,093
	17 December 2008 to 30 December 2013	31 December 2013 to 16 December 2018	—	5,093	5,093
			—	16,976	16,976

Pursuant to the rules of the share option scheme, options will lapse when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement.

26 Share-based Payments (Continued)

(a) The 2008 share option plan (Continued)

(ii) The number and weighted average exercise prices of share options are as follows:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Weighted average exercise price HKD	Number of Options '000	Weighted average exercise price HKD	Number of Options '000
Outstanding at the beginning of the year	**2.35**	**21,819**	2.35	23,117
Forfeited during the year	**2.35**	**(4,843)**	2.35	(1,298)
Outstanding at the end of the year	**2.35**	**16,976**	2.35	21,819
Exercisable at the end of the year	**–**	**–**	–	–

The 2008 Options outstanding at 31 December 2011 had an exercise price of HKD2.35 per share (equivalent to RMB2.07 per share at the date of grant) (2010: HKD2.35 per share (equivalent to RMB2.07 per share at the date of grant)) and a weighted average remaining contracted life of 6.96 years (2010: 7.96 years).

26 Share-based Payments (Continued)

(a) The 2008 share option plan (Continued)

(iii) Fair value of options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured by an independent valuer engaged by the Group, BMI Appraisals Limited ("BMI"), based on Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value at measurement date	RMB19,634,000
Grant date Share price	RMB1.60
Exercise price	HKD2.35 (equivalent to RMB 2.07)
Expected volatility	59.10%
Option life	10 years
Expected dividends	0%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	1.348%

The expected volatility was based on the historical volatilities of the share prices of the comparable companies.

There were no market conditions associated with the share option grants.

26 Share-based Payments (Continued)

(b) The 2010 share option plan

Pursuant to the written resolution of the shareholders of the Company passed on 30 June 2010, share options were granted under the Pre-IPO Share Option Scheme on 1 July 2010, whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, to take up share options at the consideration of HKD1 (equivalent to RMB0.8714 at the date of grant). Each option entitles the option holders to subscribe one ordinary share of the Company (the "2010 Options").

(i) The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Vesting period	Exercise period	Options granted Directors '000	Options granted Employees '000	Total '000
1 July 2010	1 July 2010 to 30 December 2010	26 November 2012 to 30 June 2020	—	2,400	2,400
	1 July 2010 to 30 December 2011	26 November 2012 to 30 June 2020	—	2,400	2,400
	1 July 2010 to 30 December 2012	31 December 2012 to 30 June 2020	—	3,600	3,600
	1 July 2010 to 30 December 2013	31 December 2013 to 30 June 2020	—	3,600	3,600
			—	12,000	12,000

Pursuant to the rules of the share option scheme, options will lapse when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement.

(ii) The number and weighted average exercise prices of share options are as follows:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Weighted average exercise price HKD	Number of Options '000	Weighted average exercise price HKD	Number of Options '000
Outstanding at the beginning of the year	**3.38**	**12,000**	—	—
Granted during the year	**3.38**	**—**	3.38	12,000
Outstanding at the end of the year	**3.38**	**12,000**	3.38	12,000
Exercisable at the end of the year	**—**	**—**	—	—

(Expressed in Renminbi)

26 Share-based Payments (Continued)

(b) The 2010 share option plan (Continued)

(ii) The number and weighted average exercise prices of share options are as follows: (Continued)

The 2010 Options outstanding at 31 December 2011 had an exercise price of HKD3.38 per share (equivalent to RMB2.95 per share at the date of grant) (2010: HKD3.38 per share (equivalent to RMB2.95 per share at the date of grant)) and a weighted average remaining contracted life of 8.50 years (2010: 9.50 years).

(iii) Fair value of options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured by an independent valuer engaged by the Group, BMI Appraisals Limited ("BMI"), based on Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value at measurement date	RMB14,379,000
Grant date Share price	RMB2.51
Exercise price	HKD3.38 (equivalent to RMB2.95)
Expected volatility	63.53%
Option life	10 years
Expected dividends	0%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	2.29%

The expected volatility was based on the historical volatilities of the share prices of the comparable companies.

There were no market conditions associated with the share option grants.

(c) Termination of the Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme had been automatically terminated upon the Company's listing date on 26 May 2011. In such event, no further options shall be granted but in all other respects the provisions of the Pre-IPO Share Option Scheme shall remain in force. The 2008 Options and 2010 Options granted and accepted prior to the termination but not yet exercised shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

Pursuant to the written resolution of the shareholders of the Company passed on 3 May 2011, the Company has conditionally adopted a new share option scheme (the "Post-IPO Share Option Scheme"), which shall be valid and effective for a period of ten years commencing on the Company's listing date on 26 May 2011.

As at 31 December 2011, no options have been granted by the Company under the Post-IPO Share Option Scheme.

27 Income Tax in the Consolidated Statement of Financial Position

(a) Current taxation in the consolidated statement of financial position represents:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
At 1 January	**18,796**	6,275
Provision for PRC income tax (note 6(a))	**40,519**	45,595
Provision for Hong Kong Profits Tax (note 6(a))	**—**	294
Provision for income tax from subsidiaries in other jurisdictions (note 6(a))	**935**	1,620
Provision for PRC dividend withholding tax (note 6(a))	**—**	7,395
PRC income tax paid	**(47,326)**	(33,995)
Income tax paid by subsidiaries in other jurisdictions	**(1,305)**	(993)
PRC dividend withholding tax paid	**—**	(7,395)
At 31 December	**11,619**	18,796

27 Income Tax in the Consolidated Statement of Financial Position (Continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Write-downs of inventories RMB'000	Impairment of receivables RMB'000	Unused tax losses RMB'000	Unrealised profit in inventories RMB'000	Capitalised borrowing cost RMB'000	Withholding tax on undistributed profits of subsidiaries RMB'000	Change in fair value of biological assets RMB'000	Total RMB'000
Balance as at 1 January 2010	(3,034)	(1,493)	(3,421)	(587)	716	21,122	7,980	21,283
Charged/(credited) to profit or loss	448	736	262	(1,277)	(86)	12,809	(4,241)	8,651
Disposal of subsidiaries (note 12(b))	–	–	1,627	–	–	–	–	1,627
Balance as at 31 December 2010	(2,586)	(757)	(1,532)	(1,864)	630	33,931	3,739	31,561
Balance as at 1 January 2011	(2,586)	(757)	(1,532)	(1,864)	630	33,931	3,739	31,561
(Credited)/charged to profit or loss	(209)	(1,490)	(2,402)	(179)	(10)	16,147	9	11,866
Credited to foreign currency translation reserve	–	–	–	–	–	–	(181)	(181)
Balance as at 31 December 2011	(2,795)	(2,247)	(3,934)	(2,043)	620	50,078	3,567	43,246

Deferred tax assets in respect of write-downs of inventories, impairment of receivables, unrealised profit in inventories and unused tax losses in aggregate of RMB725,000 have been recognised by Nature Flooring as at 31 December 2011 (2010: RMB2,987,000). After assessment of the future profitability of Nature Flooring, the directors of the Company are of the opinion that future taxable profits will be available against which the Group can utilise the related benefits.

27 Income Tax in the Consolidated Statement of Financial Position (Continued)

(c) Reconciliation to the consolidated statement of financial position

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Deferred tax assets recognised on the consolidated statement of financial position	**(11,019)**	(6,739)
Deferred tax liabilities recognised on the consolidated statement of financial position	**54,265**	38,300
	43,246	31,561

(d) Deferred tax assets not recognised

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Deductible temporary difference	**616**	713
Unused tax losses	**38,560**	19,737
	39,176	20,450

No deferred tax assets have been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the related benefits. As at 31 December 2011, unused tax losses of RMB1,343,000, RMB9,526,000, RMB8,206,000 and RMB17,118,000 (2010: RMB1,343,000, RMB9,526,000, RMB8,206,000 and RMB Nil), if unused, will expire by 2013, 2014, 2015 and 2016 (2010: 2013, 2014, 2015 and 2016), respectively. Further, unused tax losses of RMB2,367,000 (2010: RMB662,000) do not expire under current tax legislation.

28 Share Capital

(a) Authorised share capital of the Company

	Number of shares				
	Ordinary shares	Convertible preference shares	Special share	Total	Nominal value of shares USD'000
At 1 January 2010, 31 December 2010 and 1 January 2011	282,000,000	123,999,999	1	406,000,000	406
Cancellation of convertible preference shares and special share on 26 May 2011	—	(123,999,999)	(1)	(124,000,000)	(124)
Creation on 26 May 2011	3,718,000,000	—	—	3,718,000,000	3,718
At 31 December 2011	4,000,000,000	—	—	4,000,000,000	4,000

On 26 May 2011, 123,999,999 authorised convertible preference shares and 1 special share were cancelled. On the same date, the authorised ordinary share capital was increased by 3,718,000,000 ordinary shares of USD0.001 each.

28 Share Capital (Continued)

(b) Issued share capital of the Company

(i) Ordinary shares

	Number of ordinary shares	Nominal value of fully paid ordinary shares USD'000	Nominal value of fully paid ordinary shares RMB'000
At 1 January 2010, 31 December 2010 and 1 January 2011	70,000,000	70	490
Conversion of convertible preference shares to ordinary shares (note 25(b))	41,999,999	42	285
Capitalisation issue	1,007,999,991	1,008	6,552
Shares issued by share offer	388,265,000	388	2,521
At 31 December 2011	1,508,264,990	1,508	9,848

On 20 May 2011, all the issued convertible preference shares were converted into ordinary shares of the Company.

On 26 May 2011, 1,007,999,991 ordinary shares of USD0.001 each were issued at par value to the shareholders of the Company by way of capitalisation of USD1,008,000 (equivalent to RMB6,552,000) from the Company's share premium account.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited on 26 May 2011, with a total number of 1,508,264,990 shares, among which 388,265,000 shares (25.74% of the total number of shares of the Company) were issued to the public. The gross proceeds received by the Company from the global offering were approximately HKD1,145,382,000 (equivalent to RMB955,204,000).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company residual assets.

28 Share Capital (Continued)

(b) Issued share capital of the Company (Continued)

(ii) Convertible preference shares

	Number of shares	Nominal value of shares USD'000	Nominal value of shares RMB'000
At 1 January 2010	—	—	—
Conversion of convertible note to preference shares (note 25(b))	41,999,999	42	285
At 31 December 2010 and 1 January 2011	41,999,999	42	285
Conversion of preference shares to ordinary shares (note 28(b)(i))	(41,999,999)	(42)	(285)
At 31 December 2011	—	—	—

The holders of preference shares were entitled to receive a proportionate share of distribution of dividends with the holders of ordinary shares. The holders of voting preference shares were entitled to vote at the meeting of the Company, with voting right equals the number of ordinary shares which were convertible, whereas non-voting preference shares did not carry the right to vote. Preference shares ranked prior to ordinary shares with regard to the Company's residual assets.

The convertible preference shares were converted into ordinary shares of the Company on 20 May 2011 at the conversion ratio of 1:1.

(Expressed in Renminbi)

28 Share Capital (Continued)

(b) Issued share capital of the Company (Continued)

(iii) Special share

	Number of shares	Nominal value of shares USD	Nominal value of shares RMB
At 1 January 2010, 31 December 2010 and 1 January 2011	1	0.001	0.007
Redemption and cancellation	(1)	(0.001)	(0.007)
At 31 December 2011	—	—	—

The holder of special share was not entitled to dividends or to participate in the liquidation of the Company. The holder was entitled to vote on the "Reserved Matter" only. Reserved Matter refers to amendment of the Company charter documents, dissolution, liquidation, merger and restructuring or similar transactions of the Company, change in the total authorised number of directors on the board and adoption or change of dividend distribution policies of the Company. Upon the conversion of the voting preference shares, the Company had right to redeem and cancel the special share for a redemption price equal to the par value of the special share.

The special share was redeemed and cancelled by the Company on 20 May 2011.

29 Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 28)	Share premium RMB'000 (Note 29(d))	Foreign currency translation reserves RMB'000 (Note 29(b))	Other reserves RMB'000 (Note 29(c))	(Accumulated losses)/ retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2010	490	73,190	(10,032)	384,311	(147,485)	300,474
Changes in equity for the year ended 31 December 2010						
Profit for the year	–	–	–	–	195,400	195,400
Other comprehensive loss	–	–	(16,833)	–	–	(16,833)
Total comprehensive income	–	–	(16,833)	–	195,400	178,567
Conversion of convertible notes to preference shares (note 25(b))	285	629,348	–	(30,271)	–	599,362
Disposal of subsidiaries	–	–	–	(27,494)	–	(27,494)
Dividends approved in respect of the previous years (note 29(g))	–	(200,619)	–	–	–	(200,619)
Equity settled share-based payment transactions (note 26)	–	–	–	7,991	–	7,991
At 31 December 2010 and 1 January 2011	775	501,919	(26,865)	334,537	47,915	858,281
Changes in equity for the year ended 31 December 2011						
Profit for the year	–	–	–	–	2,297	2,297
Other comprehensive loss	–	–	(72,156)	–	–	(72,156)
Total comprehensive loss	–	–	(72,156)	–	2,297	(69,859)
Capitalisation issue (note 28(b)(i))	6,552	(6,552)	–	–	–	–
Issuance of shares by share offer (note 28(b)(i))	2,521	893,439	–	–	–	895,960
Equity settled share-based payment transactions (note 26)	–	–	–	5,088	–	5,088
At 31 December 2011	9,848	1,388,806	(99,021)	339,625	50,212	1,689,470

29 Reserves (Continued)

(a) Statutory surplus reserve

(i) According to the current PRC Company Law, the Group's entities in the PRC are required to transfer 10% of their profit after taxation to statutory surplus reserve until the surplus reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to reserve, the profit after taxation shall be the amount determined based on the statutory financial statements prepared in accordance with PRC accounting standards. The transfer to this reserve has to be made before distribution of dividend by these entities.

Statutory surplus reserve can be used to make good previous years' losses, if any, and for capitalisation issue provided that the balance after such issue is not less than 25% of the registered capital of the respective entities.

(ii) The Macau Commercial Code requires that a company should set aside a minimum of 25% of the company's profit after taxation to the legal reserve until the balance of the reserve reaches 50% of the company's capital. The reserve can be used to make good previous years' losses, if any, and for capitalisation issue.

(iii) The Peru Corporation Law requires that a company should set aside a minimum of 10% of the company's profit after taxation to the legal reserve until the balance equal to 20% of the paid-in capital. The reserve can be used to offset future net losses.

(b) Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of operations with functional currencies other than the RMB presentation currency.

(c) Other reserves

Other reserves comprise the following:

The Group

		As at 31 December	
		2011	2010
		RMB'000	RMB'000
Equity settled share-based payment transactions	(i)	**21,627**	16,539
Capital contributions	(ii)	**596**	596
Arising from reorganisation	(iii)	**99**	99
		22,322	17,234

29 Reserves (Continued)

(c) Other reserves (Continued)

The Company

		As at 31 December	
		2011	2010
		RMB'000	RMB'000
Equity settled share-based payment transactions	(i)	**21,627**	16,539
Arising from reorganisation	(iv)	**317,998**	317,998
		339,625	334,537

(i) The share-based payment transactions represent the cumulative value of the equity-settled share options granted to employees recognised in accordance with the accounting policy adopted for share-based payments in note 1(m)(ii).

(ii) These represent property, plant and equipment contributed by Controlling Shareholders to the Group in prior years.

(iii) In the Group's consolidated statement of financial position, the difference between (a) the nominal value of shares of the subsidiaries acquired and (b) the nominal value of the shares issued by the Company in exchange under the reorganisation of the Group on 8 May 2008 (the "Reorganisation") was recognised in other reserves.

(iv) Pursuant to the Reorganisation, the Company became the holding company of the Group on 8 May 2008. The excess of the consolidated net assets represented by the shares acquired over the nominal value of shares issued by the Company in exchange under the Reorganisation was transferred to other reserves.

(d) Share premium

Under the Companies Law of the Cayman Islands, the funds in the Company's share premium account are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

29 Reserves (Continued)

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bills payable and interest-bearing loans and borrowings), less cash and cash equivalents and pledged deposits. Adjusted capital comprises all components of equity.

In order to maintain or adjust the ratio, the Group may issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

29 Reserves (Continued)

(e) Capital management (Continued)

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Current liabilities:		
Bills payable	**17,708**	20,957
Loans and borrowings	**200,991**	183,458
	218,699	204,415
Non-current liabilities:		
Loans and borrowings	**57,462**	103,481
Total debt	**276,161**	307,896
Less: Cash and cash equivalents	**(865,638)**	(297,652)
Pledged deposits	**(13,273)**	(43,462)
Adjusted net asset	**(602,750)**	(33,218)
Total equity	**2,512,432**	1,342,267
Adjusted net debt-to-capital ratio	**(0.24)**	(0.02)

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(f) Distributability of reserves

The aggregate amount of reserves available for distribution to equity shareholders of the Company at 31 December 2011 was HKD2,081,249,000 (equivalent to RMB1,687,269,000) (2010: HKD1,010,605,000) (equivalent to RMB859,924,000)) which comprises the share premium, retained earnings and other reserves.

29 Reserves (Continued)

(g) Dividends

(i) Dividends payables to equity shareholders of the Company attributable to the year

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Final dividend proposed after the end of the reporting period of HK4.3 cents (equivalent to RMB3.5 cents) per ordinary share	52,789	–

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to ordinary shareholders of the Company attributable to the previous financial years, approved and paid during the year

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Dividend in respect of the previous years, approved and paid during the year	–	125,387

(iii) Dividends on preference shares issued by the Company

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Dividend in respect of the previous years, approved and paid during the year	–	75,232

30 Financial Risk Management and Fair Values

Exposure to credit, liquidity, interest rate, currency risks, commodity price risk and natural risk arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30–180 days from the date of billing. Debtors with balances that are more than 12 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

The Group has a concentration of credit risk of the total trade receivables due from the Group's largest customer and the five largest customers as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Due from		
—largest customer	**73,700**	53,362
—five largest customers	**114,305**	180,397

Except for the financial guarantees given by the Company and YS Nature as set out in note 32(iii), the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 32(iii).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables are set out in note 19.

30 Financial Risk Management and Fair Values (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it maintains sufficient reserves of cash on demand and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The maximum banking facilities and amounts utilised at the end of the reporting period are disclosed in note 25(a).

Timber prices are constantly affected by both demand and supply cycles of the timber industry. As a result, the movements of the prices would have significant impact on the Group's earnings and valuation of biological assets as well as cash flows and liquidity. Whilst efforts have been made to implement certain strategies, there can be no assurance that the Group will be fully shielded from negative effects resulting from cyclical movements of timber prices.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

The Group

At 31 December 2011	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000
Loans and borrowings	258,453	263,087	203,489	39,720	19,878
Trade and bills payables	154,186	154,186	154,186	—	—
Deposits received, accruals and other payables	114,078	114,078	114,078	—	—
	526,717	531,351	471,753	39,720	19,878

30 Financial Risk Management and Fair Values (Continued)

(b) Liquidity risk (Continued)

The Group (Continued)

At 31 December 2010	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000
Loans and borrowings	286,939	296,714	189,705	46,281	60,728
Trade and bills payables	82,303	82,303	82,303	—	—
Deposits received, accruals and other payables	111,084	111,084	111,084	—	—
	480,326	490,101	383,092	46,281	60,728

The Company

At 31 December 2011	**Carrying amount RMB'000**	**Contractual cash flows RMB'000**	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 year but less than 5 years RMB'000**
Other payables and accruals	**4,909**	**4,909**	**4,909**	**—**	**—**

At 31 December 2010	Carrying amount RMB'000	Contractual cash flows RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 year but less than 5 years RMB'000
Other payables and accruals	84,480	84,480	84,480	—	—

30 Financial Risk Management and Fair Values (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from deposits with banks and other financial institutions, short term and long term borrowings issued at variable rates and fixed rates that expose the Group to cash flow interest rate risk. Loans and borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings and deposits at the end of the reporting period:

	31 December 2011		31 December 2010	
	Effective interest rate %	Carrying amount RMB'000	Effective interest rate %	Carrying amount RMB'000
Variable rate instruments				
Deposit with banks and other financial institutions	0.5%	865,495	0.36%	297,500
Pledged deposits	0.5%	13,273	0.36%	43,462
Bank loans	2.59% (+0.59%) +HIBOR/3.25% +LIBOR	(131,830)	2.59% (+0.59%) +HIBOR/3.25% +LIBOR	(228,439)
		746,938		112,523
Fixed rate instruments				
Bank loans	0.5%	(126,623)	5.103%	(58,500)
Fixed rate borrowings as a percentage of total borrowings		49%		20%

30 Financial Risk Management and Fair Values (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/(decrease) in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax and retained profits as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
100 basis points increase	**6,660**	961
50 basis points decrease (2010: 36 basis points decrease)	**(3,330)**	(346)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2010.

30 Financial Risk Management and Fair Values (Continued)

(d) Currency risk

The Group's principal activities are carried out in the PRC. RMB is not freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

The Group is exposed to currency risk primarily arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily RMB, USD, HKD, MOP, PEN, Euro ("EUR"), Japanese yen ("JPY") and Great Britain Pound ("GBP"). Nearly all sales and purchases are denominated in functional currency of the entity to which they relate. In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensure that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB translated using the spot rate at the period end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

30 Financial Risk Management and Fair Values (Continued)

(d) Currency risk (Continued)

(i) Exposure to currency risk (Continued)

The Group

	Exposure to foreign currencies												
	31 December 2011							31 December 2010					
	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	EUR RMB'000	GBP RMB'000	RMB RMB'000	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	EUR RMB'000	JPY RMB'000
Cash and cash equivalents	1	44,050	539	270	302	–	522,342	106	11,875	2,832	99	784	–
Trade and bills receivables	–	44,573	13,369	5	2,408	3,117	–	–	44,021	998	488	–	–
Deposits, prepayments and other receivables	–	157,768	21,912	1,341	1,902	–	27,900	693	1,470	9,242	–	–	–
Trade and bills payables	–	(5,709)	(16)	–	(2,081)	–	–	–	(3,424)	(125)	(47)	–	–
Deposits received, accruals and other payables	(85,934)	(72,605)	(6,854)	–	(3,934)	–	–	(5000)	(358)	(123)	(150)	–	–
Loans and borrowings	–	(80,223)	–	–	(571)	–	–	–	(147,865)	–	–	(889)	(296)
Gross exposure arising from recognised assets and liabilities	(85,933)	87,854	28,950	1,616	(1,974)	3,117	550,242	(4,201)	(94,281)	12,824	390	(105)	(296)

The Company

	Exposure to foreign currencies												
	31 December 2011							31 December 2010					
	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	EUR RMB'000	GBP RMB'000	RMB RMB'000	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	EUR RMB'000	JPY RMB'000
Cash and cash equivalents	–	76	–	–	–	–	241,958	106	–	–	–	–	–
Other receivables	–	–	–	–	–	–	–	641,782	–	–	–	–	–
Other payables	–	–	–	–	–	–	–	(84,480)	–	–	–	–	–
Gross exposure arising from recognised assets and liabilities	–	76	–	–	–	–	241,958	557,408	–	–	–	–	–

30 Financial Risk Management and Fair Values (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables, in particular interest rates, remain constant.

The Group

	31 December 2011			31 December 2010		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
HKD	0.50%	(42)	—	0.50%	21	21
HKD	(0.50%)	42	—	(0.50%)	(21)	(21)
USD	0.15%	132	300	0.45%	(424)	(117)
USD	(0.15%)	(132)	(300)	(0.45%)	424	117
PEN	0.6%	171	171	0.70%	90	90
PEN	(0.6%)	(171)	(171)	(0.70%)	(90)	(90)
MOP	0.05%	1	1	0.60%	2	2
MOP	(0.05%)	(1)	(1)	(0.60%)	(2)	(2)
EUR	3.80%	33	33	2.75%	(3)	(3)
EUR	(3.80%)	(33)	(33)	(2.75%)	3	3
JPY	—	—	—	2.05%	6	6
JPY	—	—	—	(2.05%)	(6)	(6)
GBP	3.10%	97	97	—	—	—
GBP	(3.10%)	(97)	(97)	—	—	—
RMB	0.05%	268	268	—	—	—
RMB	(0.05%)	(268)	(268)	—	—	—

30 Financial Risk Management and Fair Values (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

The Company

	31 December 2011			31 December 2010		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
HKD	–	–	–	0.50%	2,817	2,817
HKD	–	–	–	(0.50%)	(2,817)	(2,817)
RMB	0.05%	118	118	–	–	–
RMB	(0.05%)	(118)	(118)	–	–	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax and equity measured in the respective functional currencies, translated into reporting currency (RMB) at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including intercompany payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency.

The analysis is performed on the same basis for 2010.

(e) Commodity price risk

Various wood cores and sawn timber are the major materials of the Group's products which amounted for 85% (2010: 87%) of total cost of sales. Fluctuation on commodity price of wood cores and sawn timber will have significant impact on the Group's earnings, cash flows as well as the value of inventories. The Group minimises the cost of materials by bulk purchase of major raw materials and acquisition of natural resources. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

30 Financial Risk Management and Fair Values (Continued)

(f) Natural risk

The condition of the Group's biological assets 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 value of the biological assets.

(g) Fair value

The carrying amounts of all financial assets and liabilities are not materially difference from their fair values as at 31 December 2011 and 31 December 2010.

(h) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments, equity-settled share-based payment and biological assets.

(i) Trade and other receivables

Trade receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period.

(ii) Loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Equity-settled share-based payment transactions

The fair value of employee share options is measured using a binomial option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected period), expected term of the instruments (based on historical experience and general option holder behaviour), and the risk-free interest rate (based on Hong Kong Exchange Fund Notes). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

30 Financial Risk Management and Fair Values (Continued)

(h) Estimation of fair value (Continued)

(iv) Biological assets

The fair value of standing timber above minimum cutting diameter at which it becomes marketable, is based on the present value of net cash flows expected to be generated from the estimated recoverable wood volume, net of harvesting costs and costs of transportation of the assets to market, discounted at a current market determined pre-tax rate.

(v) Interest rate used for determining fair value

The market interest rates adopted for determining the fair value of convertible notes and interest-bearing loans are ranging from 2.59% to 4.00% as at 31 December 2011 (31 December 2010: 2.59% to 16.86%).

31 Commitments and Contingent Liabilities

(a) Capital commitments

Capital commitments outstanding at the end of the reporting period not provided for in the financial statements were as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Contracted for	**1,294**	1,250
Authorised but not contracted	**3,670**	32,048

31 Commitments and Contingent Liabilities (Continued)

(b) Operating lease commitments

The Group leases properties through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At the end of the reporting period, the total future minimum lease payments under operating leases are as follows:

	As at 31 December	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**6,681**	4,631
After 1 year but within 3 years	**7,882**	7,437
After 3 years but within 5 years	**3,968**	5,024
After 5 years	**9,722**	10,379
	28,253	27,471

The Group leases a number of factory facilities under operating leases. The leases typically run for an initial period of half a year to fourteen years, with an option to renew the lease when all terms are negotiated. None of the leases included contingent rentals.

32 Material Related Party Transactions

In addition to the related party information disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions.

During the year ended 31 December 2011, the directors are of the view that the following are related parties of the Group:

Name of Related Party	Relationship
Mr Se Hok Pan and Ms Un Son I	Ultimate controlling parties of the Company (note 34)
She Jian Bin (佘建彬)	Executive director of the Company
She Zhuo Teng (佘卓騰)	Close family member of She Jian Bin
M & M Real Estate Investment Company Limited	A company controlled by the ultimate controlling parties

32 Material Related Party Transactions (Continued)

(i) Sales of wood flooring products to related parties

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
She Zhuo Teng	63	1,882

(ii) Operating lease charges paid to related parties

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
M & M Real Estate Investment Company Limited	264	–

(iii) Financial guarantee provided by related parties

At 31 December 2011, bank loan amounted to RMB Nil (2010: RMB178,368,000) was guaranteed by Mr. Se Hok Pan, Ms. Un Son I and the Company.

(iv) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees, as disclosed in note 8, is as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	8,826	8,493
Post-employment benefits	7	7
Equity-settled share-based payment expenses	630	843
	9,463	9,343

Total remuneration is included in "staff costs" (note 5(b)).

(Expressed in Renminbi)

33 Subsequent Events

(a) On 4 January 2012, the Company granted 68,000,000 share options under the Post-IPO Share Option Scheme. Each option entitles the option holders to subscribe one ordinary share of the Company. The following are the details of the share option granted:

Date of grant:	4 January 2012
Exercise price:	HKD1.45
Number of share options granted:	68,000,000

(b) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 29(g)(i).

34 Immediate and Ultimate Controlling Parties

At 31 December 2011, the directors consider the immediate parent of the Group to be Freewings Development Co., Ltd., which is incorporated in BVI. This entity does not produce financial statements available for public use. The ultimate controlling parties are Mr Se Hok Pan and Ms Un Son I.

35 Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The critical accounting judgments in applying the Group's accounting policies are described below:

(i) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

35 Significant Accounting Judgments and Estimates (Continued)

(ii) Impairments

In considering the impairment losses that may be required for certain property, plant and equipment, lease prepayments, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of turnover and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment losses would affect the new profit or loss in future periods.

(iii) Net realisable value of inventories

Net realisable value of inventories, in particular wood flooring products, is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycle. Management reassess these estimates at each reporting period end date.

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for unused tax losses and deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which they can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

35 Significant Accounting Judgments and Estimates (Continued)

(v) Fair value of biological assets

The Group's biological assets are valued at fair value less estimated costs to sell. In determining the fair value of the biological assets, the professional valuers have applied the net present value approach which requires a number of key assumptions and estimates to be made such as discount rate, log prices, harvest profile, transportation and processing costs, growth, harvesting and establishment. Any changes in the estimates may affect the fair value of the biological assets significantly. The professional valuers and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets.

36 Comparative Figures

For ease of reference, the following items are separately presented in the consolidated statement of financial position:

- trade and bills receivables;
- deposits, prepayments and other receivables;
- trade and bills payables; and
- deposits received, accruals and other payables.

The relevant comparative figures have been reclassified to conform to current year's presentation.

(Expressed in Renminbi)

37 Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and the financial statements:

	Effective for accounting periods beginning on or after
Amendments to IAS 12, Income taxes — Deferred tax: Recovery of underlying assets	1 January 2012
Amendments to IAS 1, Presentation of financial statements — Presentation of items of other comprehensive income	1 July 2012
IFRS 10, Consolidated financial statements	1 January 2013
IFRS 11, Joint arrangements	1 January 2013
IFRS 12, Disclosure of interests in other entities	1 January 2013
IFRS 13, Fair value measurement	1 January 2013
IAS 27, Separate financial statements (2011)	1 January 2013
IAS 28, Investments in associates and joint ventures (2011)	1 January 2013
Revised IAS 19, Employee benefits	1 January 2013
Amendments to IFRS 7, Financial instruments: Disclosures — Disclosures — Offsetting financial assets and financial liabilities	1 January 2013
Amendments to IAS 32, Financial instruments: Presentation — Offsetting financial assets and financial liabilities	1 January 2014
IFRS 9, Financial instruments (2010)	1 January 2015
Amendments to IFRS 9, Financial instruments and IFRS 7 Financial instruments: Disclosures — Mandatory effective date and transition disclosures	1 January 2015

The directors of the Company have confirmed that the Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Financial Summary

(Expressed in Renminbi)

	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Results				
Turnover	**1,560,985**	1,623,908	990,462	885,409
Net change in fair value of biological assets	**92,707**	106,798	81,869	—
Profit from operations	**335,646**	442,886	332,793	203,405
Net finance income/(costs)	**23,427**	(39,194)	(70,770)	(46,901)
Profit before taxation	**359,073**	403,692	262,023	156,504
Income tax	**(53,320)**	(63,555)	(38,197)	(10,540)
Profit for the year	**305,753**	340,137	223,826	145,964
Attributable to:				
Equity shareholders of the company	**306,017**	340,137	223,826	145,964
Non-controlling interests	**(264)**	—	—	—
Profit for the year	**305,753**	340,137	223,826	145,964
Assets and liabilities				
Non-current assets	**885,547**	694,641	556,699	314,728
Current assets	**2,219,486**	1,185,048	1,027,214	717,794
Total assets	**3,105,033**	1,879,689	1,583,913	1,032,522
Current liabilities	**(480,874)**	(395,641)	(888,667)	(172,996)
Non-current liabilities	**(111,727)**	(141,781)	(98,129)	(490,645)
NET ASSETS	**2,512,432**	1,342,267	597,117	368,881
Share capital	**9,848**	775	490	490
Reserves	**2,498,848**	1,341,492	596,627	368,391
Non-controlling interests	**3,736**	—	—	—
TOTAL EQUITY	**2,512,432**	1,342,267	597,117	368,881
Earnings per share (Note)				
Basic	**0.23**	0.25	0.21	0.14
Diluted	**0.23**	0.25	0.21	0.14

(Expressed in Renminbi)

Note:

The calculation of basic and diluted earnings per share for the years ended 31 December 2008, 2009 and 2010 was adjusted retrospectively for the effect of 1,007,999,991 ordinary shares issued by way of capitalization on 26 May 2011.

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2008, 2009 and 2010.

The calculation of diluted earnings per share for the year ended 31 December 2011 was based on the profit attributable to ordinary shareholders of RMB306,017,000 and weighted average number of ordinary shares of 1,338,028,000, after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option plan and convertible preference shares.