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## SUMMARY

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*This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Shares. There are risks associated with any investment. Some of the particular risks in investing in the Shares are set out in the section headed "Risk Factors". You should read this section carefully before you decide to invest in the Shares.*

### OVERVIEW

According to the CCPEF, we are one of the three largest, privately-held, naturally regenerated and plantation forest operators in China in terms of coverage area of owned forest right, possessing forestry rights in respect of approximately 171,780 hectares of forests as at 30 June 2009. Our naturally regenerated and plantation forests are located in Sichuan and Yunnan, which among all provinces of China, possess the second and third largest forest resources, respectively, in terms of forest stock volume according to China Forestry Statistical Yearbook 2007. We have been operating in the forestry industry in China since 2003, the same year when the Chinese government announced the No. 9 Policy which set out the directive for the private sector to participate in China's forestry development. Our main businesses are the management and sustainable development of forests and the harvesting and sale of logs. We are focused on the development and supply of logs to meet the increasing demand from manufacturers in the construction, furniture, interior decoration, wood product and paper industries in China.

We are a socially responsible and environmentally friendly company. Our mission statement is "using modern forestry science to achieve our goal of being a profitable yet socially responsible and environmentally friendly company". We believe in striking a balance between the increase in demand for forest resources and the preservation of ecology. Through our commitment to respect the environment as well as the communities that surround our forests, we believe that we gain local acceptance for our activities and have built a favourable reputation. This, in turn, helps us distinguish ourselves from other forestry companies and gives us a competitive advantage as we expand our operations into new geographic areas and acquire more forests.

#### ***Our Unrealised Gains from Fair Value Change***

Our unrealised gains during the Track Record Period primarily represented the fair value change which represents the difference between the fair value and relatively low acquisition cost for our newly acquired forests. During the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our unrealised gains arising from changes in fair value of plantation assets less costs to sell were approximately RMB350.5 million, RMB798.5 million, RMB6,024.4 million and RMB518.9 million, respectively, accounting for approximately 103.1%, 101.9%, 102.4% and 120.1%, respectively, of our net profit for the corresponding periods, which were approximately RMB339.8 million, RMB783.7 million, RMB5,881.8 million and RMB432.1 million respectively.

The unrealized gains arising from changes in fair value of plantation assets less costs to sell for the year ended 31 December 2008 increased substantially. Such gains comprise (a) an unrealized gain of approximately RMB6,635 million arising upon initial acquisition of plantation assets in Yunnan Luxi and Yunnan Wenshan, and (b) an unrealized loss of approximately RMB611 million during the year, primarily due to a revision in yield estimate and drop in log

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prices in the second half of 2008. Further details of such revision are set out in "Financial Information — Description of Selected Income Statement Items — Changes in fair value of plantation assets". Pursuant to IAS 41 Agriculture ("IAS 41"), the fair value of our plantation assets less costs to sell at each balance sheet date was reassessed and the upward change in such amount was recorded as an unrealised gain. Such unrealised gains do not generate actual cash inflow or outflow unless such plantation assets are processed and sold at such revalued amounts. The increase in market prices of logs and the volume growth of forests during the Track Record Period also contributed to such unrealised gains. Going forward, although the market price of logs is expected to rise for the years to come as China's demand for timber continues to grow, we expect that our gains, and thus our profit in the future, may not be as much as during the Track Record Period if we do not acquire new forests at relatively low acquisition costs.

We have engaged CFK, an independent forestry valuer, to determine the fair value of our forests. As there is no active market for our forests, the fair value of our forest assets is determined based on a net present value approach whereby projected future net cash flows from our forest assets were discounted at certain discount rates to provide a current market value of our forest assets. Changes in the discount rates applied by CFK result in significant fluctuations in our gain/(loss) from changes in fair value of plantation assets less costs to sell. The following table illustrates the sensitivity of our gain/(loss) from changes in fair value of plantation assets less costs to sell, to increases or decreases of 0.5% in the discount rates of 9%, 11% and 13%, applied by CFK to our Sichuan forests, the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest respectively, for the 2008 financial year:

	<u>0.5% Decrease</u>	<u>Discount Rate Applied</u>	<u>0.5% Increase</u>
Discount rate (Sichuan forests) .....	8.5%	9%	9.5%
Gain/(Loss) from changes in fair value of plantation assets less costs to sell (RMB) .....	(85,277,442)	(110,277,442)	(134,277,442)
Discount rate (Yunnan Luxi/Shuangjiang Forest) .....	10.5%	11%	11.5%
Gain/(Loss) from changes in fair value of plantation assets less costs to sell (RMB) .....	4,570,917,681	4,449,917,681	4,333,917,681
Discount rate (Yunnan Wenshan Forest) .....	12.5%	13%	13.5%
Gain/(Loss) from changes in fair value of plantation assets less costs to sell (RMB) .....	1,785,723,960	1,684,723,960	1,589,723,960

Based on the above sensitivity analysis, (1) a 0.5% decrease and 0.5% increase of the discount rate applied to our Sichuan forests would result in an increase of RMB25,000,000 (or approximately 0.4% increase) and a decrease of RMB24,000,000 (or approximately 0.4% decrease), respectively, in our net profit for the year 2008; (2) a 0.5% decrease and 0.5% increase of the discount rate applied to the Yunnan Luxi/Shuangjiang Forest would result in an increase of RMB121,000,000 (or approximately 2.1% increase) and a decrease of RMB116,000,000 (or approximately 2.0% decrease), respectively, in our net profit for the year 2008; and (3) a 0.5% decrease and 0.5% increase of the discount rate applied to the Yunnan Wenshan Forest would result in an increase of RMB101,000,000 (or approximately 1.7% increase) and a decrease of RMB95,000,000 (or approximately 1.6% decrease), respectively, in our net profit for the year 2008.

We have also engaged CFK to prepare an independent technical report which is set out in Appendix V to this document. In view of CFK's recommendations on our internal record

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keeping system, we have engaged Shanghai SVA Communication Co., Ltd. to implement an information management system for us, including a forestry resources management system which uses satellite for collection and transmission of data gathered from forests. It is expected that upon completion of the system implementation by the end of 2010, our forest resource recording system will be significantly enhanced.

### ***Our forests***

We believe we have developed the necessary expertise and understanding of industry practices at the local, regional and national levels to acquire relatively large areas of forests that would give us economies of scale.

Our total forest area increased at a CAGR of approximately 510.9% between 2006 and 2008. Our total forest area as at 31 December 2006, 2007 and 2008 and 30 June 2009 was approximately 4,603 hectares, 12,453 hectares, 171,780 hectares, 171,780 hectares respectively, and our total forest stock volume as at the corresponding dates was approximately 1.2 million m<sup>3</sup>, 3.4 million m<sup>3</sup>, 35.5 million m<sup>3</sup> and 35.5 million m<sup>3</sup>, respectively.

In March 2008, we acquired the Yunnan Luxi/Shuangjiang Forest in Yunnan. It was the first time we acquired forests in Yunnan. This forest includes both naturally regenerated and plantation forests and has an area of approximately 59,333 hectares and a forest stock volume of approximately 13.7 million m<sup>3</sup> based on an assessment as at 30 June 2009. The total consideration for this acquisition was approximately RMB362.5 million and has been fully settled. In order to expand our forest reserve further, in July 2008, we also acquired the Yunnan Wenshan Forest in Yunnan. This forest consists of plantation forests of approximately 100,000 hectares and has a forest stock volume of approximately 19.6 million m<sup>3</sup>, based on an assessment as at 30 June 2009. Unlike the other forests of the Group, we have not yet commenced harvesting activities in the Yunnan Wenshan Forest, and therefore there is no revenue generated pursuant to the harvesting and sales of logs from this forest. However, the fair value gain at the time of acquisition and the relevant fair value changes over the Track Record Period after the acquisition would not be affected by the harvesting activities, and the acquisitions of both Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest contributed to the Group's profits during the Track Record Period due to their fair value gains on acquisition and their relevant fair value changes over the Track Record Period after such acquisitions. Currently the Group expects to commence harvesting of the Yunnan Wenshan Forest in 2011. Both forests in Yunnan are considered high quality in that the forest stock volume per hectare is substantially higher than the PRC national average in 2007. The present value of the total consideration for the acquisition of the Yunnan Wenshan Forest was RMB551.6 million. As at the Latest Practicable Date, the unpaid consideration of Yunnan Wenshan forest amounted to approximately RMB[103.41] million and will be settled with the Group's internal resources. Although the total purchase price for the Yunnan Wenshan Forest has not been fully settled, its forestry rights have already been transferred to us and we have already obtained its relevant forestry right certificates. Therefore we now own the forest trees and the usage rights of the forest trees and forest land, in respect of both the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest.

As a result of the above acquisitions, as at 30 June 2009, our forest area was 171,780 hectares, with forest stock volume of around [35.5] million m<sup>3</sup> (based on an assessment as at 30 June 2009). For each of our Sichuan Forest, the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest, we have achieved an average wood yield (in terms of forest stock

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volume per hectare) of approximately 174.4 m<sup>3</sup> per hectare, 231.6 m<sup>3</sup> per hectare and 196.3 m<sup>3</sup> per hectare respectively, as at 30 June 2009. According to the China Forestry Statistical Yearbook 2007, the PRC national average wood yield in 2007 was only approximately 71 m<sup>3</sup> per hectare. In future, we will continue to seek opportunities to acquire other high quality forests in China. With the expansion in our forest reserves, we believe our sales and profitability will grow.

For the three financial years ended 31 December 2006, 2007 and 2008, we acquired forests of approximately 2,683 hectares, 7,850 hectares and 159,333 hectares respectively. The amount paid or payable for these acquisitions (excluding land use rights) was approximately RMB29.1 million, RMB93.5 million and RMB714.9 million respectively, or RMB10,853, RMB11,913 and RMB4,487 per hectare respectively. We did not acquire any forests in the first half of 2009. The acquisitions in the year of 2008 were the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest. Although the Yunnan Luxi/Shuangjiang Forest comprises more expensive hardwood trees, the overall acquisition cost per hectare of these two Yunnan forests was relatively lower than that of our forests in Sichuan because (i) the negotiated total purchase price reflected certain economies of scale for such a large acquisition, and (ii) we believe that the competition in the forestry industry is relatively less intense in Yunnan as compared to that in Sichuan. To our best knowledge, private sector participation in the Chinese forestry industry generally commenced earlier in Sichuan when compared to Yunnan. The consideration for our forest acquisitions during the Track Record Period was financed by our internal resources and proceeds from the First Share Purchase Agreement and the Second Share Purchase Agreement and was negotiated on an arm's length basis by reference to the prevailing market price. For the two years ended 31 December 2007, all of our logging activities and sales were in Sichuan as we only began our logging operations in Yunnan in May 2008. For the year ended 31 December 2008 and the six months ended 30 June 2009, our log sales from our Sichuan forests accounted for approximately 29.5% and 18.6% respectively, and our log sales from our Yunnan forests accounted for approximately 70.5% and 81.4% respectively, of our total turnover for the corresponding periods.

As at 30 June 2009, our plantation forest and naturally regenerated forest consisted of approximately [131,247] hectares and [40,533] hectares, respectively. Over 90% of our forests are around 18-60 years old and immediately harvestable. Our major tree species is Chinese fir (*Cunninghamia lanceolata*), which accounted for approximately 71.1% of our forest area. Chinese fir is a softwood tree, and its wood is highly durable, easily worked, resistant to insects and termites, and is commercially and widely used for making wood panels, plywood, furniture and pulp. Approximately 17.7% of our total forest area is planted with birch (*Betula alnoides*), a hardwood tree, which produces strong and durable wood, and is used for producing a variety of solid wood products such as wood panels, furniture, flooring and other construction materials. Due to its superior wood properties, birch log is generally more expensive than softwood log. For example, according to the China Forestry Statistical Yearbook 2007, the average price of birch log in China for 2007 was about 1.4 times the average price of fir log. Our remaining forest area is planted with beech (approximately 5.8%), pine (approximately 5.1%) and a mix of fir, cedar, birch, pine and alder (collectively, approximately 0.3%).

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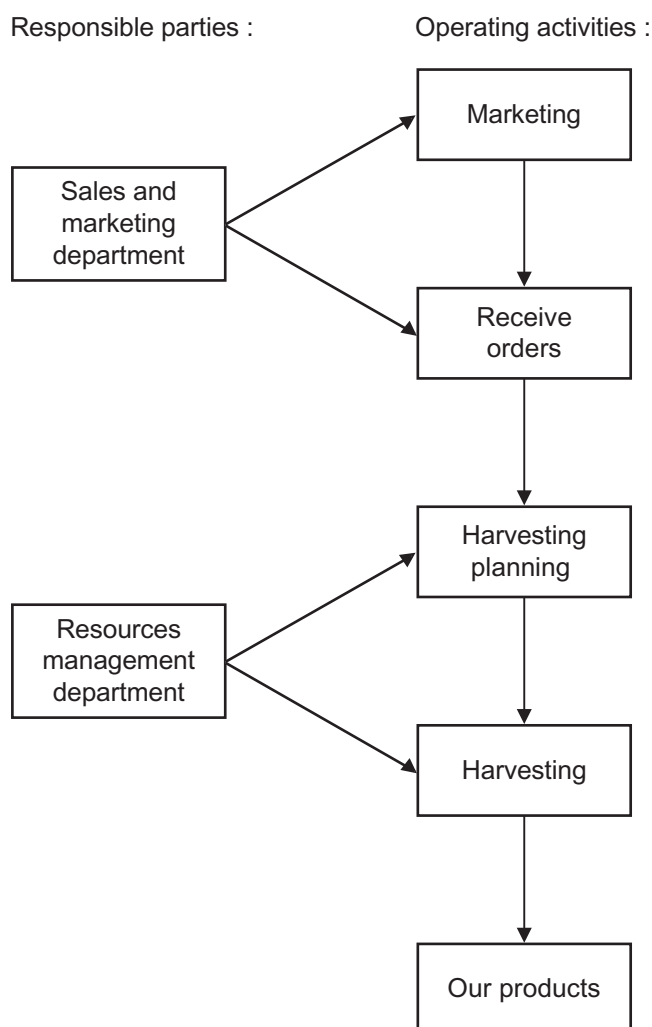
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### *Our operations*

Our business operations are currently focused on upstream timber activities and cover the full timber supply chain from planting of trees, the management and operation of forests and harvesting of forest resources to the sales of logs to third parties.

We are committed to customer service and quality products. Our sales and marketing department works closely with our resources management department to ensure that timber is processed to match each customer's request. Typically, we harvest timber only after we receive an order from customers. Our resources management department then decides where to harvest the timber, initiates the logging permit process, and instructs the harvesting villages or professional harvesting teams to arrange and organise for harvesting for the desired amount. Trees are harvested and processed into logs meeting the customer's required dimensions. When the logs are ready, our customers will then arrange for log transportation.

The following diagram shows a summary of our operations.



For the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, sales of Chinese fir logs accounted for approximately 94.5%, 96.6%, 33.9% and 22.6% of our total revenue respectively. Sales of Chinese fir logs

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decreased as a percentage of total sales when we began operating our Yunnan Luxi/ Shuangjiang Forest in May 2008. This forest includes Yunnan pine, beech and birch in addition to Chinese fir. For each of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our log sales volume was approximately 76,200 m<sup>3</sup>, 169,800 m<sup>3</sup>, 520,407 m<sup>3</sup> and 321,930 m<sup>3</sup>, respectively, which represented a CAGR of approximately 161.3% between 2006 and 2008. The Group's operating performance after 30 June 2009 is generally in line with its performance during the six months ended 30 June 2009. During the quarter ended 30 September 2009, harvested volume of the Group amounted to 117,480 m<sup>3</sup>, which was consistent with its harvesting plan. As set out in the table below, sales volume and average selling price of the Group during the quarter ended 30 September 2009 were comparable to those for the six months ended 30 June 2009:

	<u>Six months ended 30 June 2009</u>	<u>Quarter ended 30 September 2009</u>
Log price		
● Chinese fir .....	853	853
● Yunnan pine .....	839	839
● Beech .....	1,284	1,573
● Birch .....	1,384	1,748
Average sales volume per month (m <sup>3</sup> ) .....	53,655	50,760

We have a system in place to manage and operate our forests, including our forest acquisition system. We are committed to sustainable forestry management practices. For each of the three years ended 31 December 2006, 2007, 2008 and 2009, we harvested timber at a rate of approximately 10.0%, 7.6%, 1.5% and 2.0% respectively (harvesting rate for 2009 is derived by annualising harvested volume for six months ended 30 June 2009), in terms of the wood volume harvested during the year relative to the total forest stock volume standing at the end of that year. Our harvesting rate will change with our harvesting method and harvesting standards. During the Track Record Period, we did not experience any material change in our harvesting rate that resulted in a material impact on our financial results. We expect to increase our harvesting rate by about 1% per year in both Sichuan and Yunnan Provinces over the next three to five years to reach a target harvesting rate of 8% to 9%, in terms of the wood volume harvested during the year relative to the total forest stock volume standing at the end of that year. Our harvesting and replanting of trees comply with the PRC Forestry Law and the relevant rules and regulations.

We enter into contracts with the villages, which are rural economic collective organisations, located close to the forests, or professional harvesting teams to provide harvesting services for our forests depending on the operational scale and the complexity of logging.

Generally, the average area of a Yunnan forest parcel is larger than that of a Sichuan forest parcel and the logging conditions in Yunnan forest are more complex than that in Sichuan forests. Therefore, we generally engage professional teams who are better equipped and more experienced in harvesting to perform harvesting services of our Yunnan forests. The professional teams which are currently engaged by us is a private enterprise in Yunnan which provides harvesting services. To the best of our knowledge, it has been operating for about four years and its customers are primarily forestry operators in Yunnan. We believe this professional harvesting company has the necessary skills and resources for and experience in conducting harvesting for us.



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For each of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we employed 7, 9, 10 and 10 villages, respectively, for harvesting in Sichuan. We commenced harvesting in Yunnan in May 2008, and for the year ended 31 December 2008 and the six months ended 30 June 2009, we employed 1 professional harvesting company for harvesting forests in Yunnan, respectively. During the period from 1 January 2009 to the Latest Practicable Date, we engaged 10 villages for harvesting in Sichuan and 1 professional harvesting company for harvesting forests in Yunnan.

Since we employ third parties to undertake harvesting and such parties are responsible for equipping themselves, we do not need to purchase and supply of equipment or machinery to them. We also do not need trucks for transportation as our customers arrange their own pick-up of logs from the roadsides near our forests. We do need seedlings for replanting but they are provided free of charge by the PRC government. Therefore we do not have suppliers for operating our forestry business, whether or not they are specific to our business or are required on a regular basis to operate our business.

We are also in the process of applying to The Forest Stewardship Council for FSC certification with the aim of improving our forestry management standards to an internationally recognised standard. As at the Latest Practicable Date, the Company has yet to complete and obtain the FSC accreditation but expected to complete such accreditation process within the next two years.

### ***Our Environmental Controls***

#### *Our policy*

We are an environmentally friendly company and have taken various measures to minimise the possible impact of our operations to the environment, which include the following:-

- Harvesting
  - (a) Our annual average harvesting rate, in terms of the wood volume harvested during the year relative to the total forest stock volume standing at the end of that year, is lower than the maximum logging rate advised by the local forestry bureaus in Sichuan and Yunnan, which is 10% of our total forest stock volume.
  - (b) During each year, we will not harvest trees more than once from the same area.
  - (c) Our harvesting is performed selectively in one parcel of forest rather than clear logging over an extensive area.
  - (d) To minimise the environmental impact to our forests, we assess the forest and select trees for logging according to the growth conditions of the trees.
  - (e) We only harvest those trees which have met our harvesting standards, i.e. having a stem diameter greater than 20 cm, a stem length of not less than 15 m and aged at least 20 years.
- Logistics
  - (f) As it is our policy to minimise the environmental impact of our operations, roads leading to the main roads should only be constructed when absolutely necessary. Given that our forests are relatively close to roads or routes leading

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to the main roads, we have not constructed any new roads connecting our forests to the main roads during the Track Record Period.

- (g) We do not deploy heavy machines to transport our timber downhill. Instead, the villagers and the professional harvesting teams we hired make use of the natural landscape such as a nearby river or the slope of a hill to transport timber, and where necessary, they will build cables for transport. As such, we believe that the environmental impact from their operations is minimised.
- Replanting
  - (h) Our replanting rate is at least 110% of the number of trees we harvest, which is higher than the minimum 100% replanting rate as required by relevant law.
  - (i) When replanting, depending on the characteristics of each specie of trees, we plan the location/position of the seedlings to ensure that there will be sufficient growing space for each seedling.
  - (j) We achieve an average survival rate in the year of planting of approximately [90]%, exceeding the legal requirement of 85%.
- Improvement of forest industrial structure
  - (k) Our Group and Beijing Forestry University plan to jointly establish a research centre, which will conduct research on the prediction and monitoring of the growth of trees planted in our forests, sustainable forestry management and other advanced forestry management technology and practices.

According to CFK, our operations should not materially affect the environment for the following reasons:

- (a) although some of the forests are in water supply catchments for large cities, the use of selective logging method reduces the impact of forest operations on water run-off, and therefore their location in water supply catchments will not cause a problem for harvesting or forest management;
- (b) the use of the selective logging method reduces the impact to the environment and the erosion risk associated with the alternative of clear logging method; and
- (c) the location and terrain of our forests reduces the likelihood of any chemical waste dumps being present.

Accordingly, our Directors are of the view that our operations will not materially and adversely affect the environment.

### Governmental controls on environment

Our forestry operations are subject to PRC laws and regulations relating to the protection of the environment.

All of our forests are categorised as timber stands and commercially harvestable under the PRC Laws. For more details regarding forest classification, please refer to the section



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headed "Regulatory Overview — Forestry management and deforestation — Forestry management".

Under the PRC Forestry Law, the PRC government strictly implements a quota system for logging of forest wood so as to uphold the overriding principle that the amount of consumption of timber must be less than the amount of its growth.

Each year, the forestry bureaus at the lower level (which is mainly the county level), based on their regular check on the conditions (including the maturity of trees and the forestry resources) and the forestry operation plans of all forestry lands within their respective area, prepare the proposed annual logging quota. The annual quota is reviewed by the local governments at the same level and is submitted to the forest bureau at the provincial level. The forestry bureaus at the provincial level are then responsible for compiling annual logging quotas by adjusting the proposed logging quotas submitted by the lower level forestry bureaus and submitting them to the PRC State Council for final approval. The governmental measures to monitor logging activities (including the amounts harvested by forestry operators) mainly include (a) prior approval in the form of the logging permit system; (b) examination of the actual logging amount during logging; and (c) transportation controls by using the timber transportation permit system. For more details, please refer to the section headed "Regulatory Overview — Forestry and deforestation" and "Business — Our sustainable forestry management".

To maintain the sustainability of the environment, the PRC laws also require the forestry operators to replant trees after logging and the number of replanted trees must not be less than the number of harvested trees. Also, we understand that the Sichuan local forestry bureau conducts regular checks on the conditions of the forest lands within its area, including the health and growth conditions of trees, the forest resources, and the environmental conditions of the forest, checking for conditions such as soil erosion and chemical waste dumps, to ensure the environment is not adversely affected.

### Our compliance

Our PRC legal advisers advised that pursuant to the PRC Forestry Law and its implementation rules in force, in respect of the amounts which may be harvested, we are only required to comply with the log amount specified in the logging permits. We obtain approval for the amount we harvest prior to each logging. Although there are no specific PRC laws or regulations which prescribe how a local forestry bureau shall determine the logging amount of a forestry operator in a logging permit, we are advised by the local forestry bureaus in Sichuan and Yunnan that our maximum logging amount each year should be 10% of the total forest stock volume of all our forests. Since our forest stock volume changes from time to time, the local forestry bureaus in Sichuan and Yunnan have not advised on any absolute figure of our annual maximum logging amount.

In light of the position of the local forestry bureaus, our internal guidelines provide that our annual maximum logging amount should not exceed 10% of our total forest stock volume. Upon receiving an order from our customers, our resources management department will check (i) whether the aforesaid 10% annual logging cap has been utilized up to that moment; and (ii) the volume of logs in the order as compared to the un-utilized logging cap, to ensure our compliance with the anticipated annual logging cap. Furthermore, the relevant logging activities with a harvesting plan must be approved in advance by our chief administration

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officer. After selecting the appropriate forest for logging, we will apply for the logging permit with the local forestry bureau.

We apply for a logging permit before each logging. To ensure our compliance with the logging permits, during logging, our forest workers and dedicated forest team members will be present on site to monitor the logging activities and record details of harvesting (including the date, area and location of logging, and the volume of timber harvested), to ensure the quantity of timber logged does not exceed that specified in the logging permit, and the harvesting complies with other requirements as set out in the logging permit and our own harvesting requirements including the quality of logs. Such logging records are first prepared by our forest workers and then reviewed by our dedicated forest team. The volume of timber will also be re-measured by our forest workers, dedicated forest team and customers before our customers pick up the timber. In addition, our resources management department will record and monitor all the actual logging amounts and the local forestry bureau will conduct selective examination of our logging activities.

The table below sets forth our actual logging amount and the maximum logging amount permitted under the logging permits granted to us (whether or not they have been fully utilised) for the three years ended 31 December 2008 and the six months ended 30 June 2009.

<u>Year</u>	<u>Actual logging amount (m<sup>3</sup>)</u>	<u>Maximum amount permitted under logging permits (m<sup>3</sup>)</u>
2006 .....	75,909	77,034
2007 .....	169,329	169,329
2008 .....	519,928	519,928
2009 (up to 30 June 2009) .....	356,730	356,730

Regarding replanting, we will select, within the same piece of forest where trees have been harvested, the suitable replanting areas which can provide enough space and light for the growth of seedlings. We replant trees at the rate of at least 110%, which is more than what is required under the PRC laws. For every 100 trees logged by us, we will replant at least 110 new trees within a year after the month of actual logging. In addition, as part of our commitment to sustainable forestry management, we achieve an average survival rate in the year of planting of approximately [90]%, exceeding the legal requirement of 85%. Our Directors are of the view that given our consequential survival rate, there is enough space for the new plants to grow healthily.

Furthermore, a transportation permit is required for transporting timber out of the forest area. As our current forestry operation does not involve transporting timber out of the forest area, we do not require transportation permits. Transportation permits remain the responsibility of our customers. We will provide a photocopy of the relevant logging permit to our customers for their application for transportation permits. However, we will not check whether they applied for transportation permits, and are not liable if they fail to obtain transportation permits or breach their terms.

As part of our daily management, our forest workers inspect the forests on a daily basis for which they are responsible. They will check the conditions of tree growth, logging and replanting. They will also examine whether there is any risk of disease, pest or fire in the forests. After inspection of the forests, they will record the results. Every quarterly year, our forest workers are required to submit a report of tree growth and a report of changes in tree

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conditions to our resources management department. Such reports are subject to the verification and approval of our dedicated forest team.

As we have been in compliance with the above logging and replanting measures which are enforced by the PRC government, our Directors are of the view that there will not be any adverse impact on our business and operations in ensuring our compliance with these measures. Our PRC legal advisers have advised that given that: (a) we have obtained logging permits before each time of logging; and (b) the relevant local forestry bureaus in Sichuan and Yunnan have confirmed that our logging activities were in compliance with the relevant rules and regulations, our logging activities during the Track Record Period were in compliance with the applicable PRC laws and regulations in all material respects.

Our PRC legal advisers have advised that according to the PRC Environmental Protection Law, the PRC Environmental Impact Assessment Law and the relevant regulations, we are required to conduct an environmental impact assessment. However, during the Track Record Period, we had not conducted any formal environmental impact assessment for our forests, and therefore had not incurred any cost for compliance with such requirements under the PRC environmental laws.

We have consulted the national environmental bureau and was informed that an environmental impact assessment should be conducted under the PRC law. However, it is the local environmental bureau who is responsible for implementing the laws and regulations of environmental impact assessment, and the actual application for environmental impact assessment has to be made with the local environmental bureau. We have made an enquiry of the Sichuan local environmental authority. It considers that such assessment is not necessary for us because our operational activities are, in their view, not pollutive. We will continue to communicate with the Sichuan local environmental bureau in this regard. If it ultimately changes its view and decides that we should conduct an environmental impact assessment, we will proceed with the environmental impact assessment immediately. In Yunnan, we have made an enquiry to the Yunnan local environmental bureau and the response was, whilst it had not previously obliged such environmental impact assessment, to the extent we did undertake one, it would be agreeable to accepting it for review. We are in the process of selecting a suitable assessment company with the capacity or experience in performing such assessments in the forestry industry. When such assessment has been completed, we would need to submit to the relevant environmental bureau, an environmental impact report form which will be prepared with the assistance of the assessment company. This report will contain recommendations or measures to protect the environment, which, where appropriate, will be implemented by us. We expect the related costs to be not more than RMB500,000. Upon enquiry by us of the Sichuan and Yunnan local environmental bureaus, we were informed that they, as a matter of practice, are primarily concerned with monitoring our compliance with the maximum logging amount set out in our logging permits and our replanting obligations. Under circumstances as described above, although the local environmental authorities have not confirmed that they would not take any actions against us for the non-performance of the environmental impact assessment, we believe that it is not likely that the local environmental authority would take actions against us. Our PRC legal advisers have advised that if we do not undertake an environmental impact assessment, the environmental bureau may order us to undertake one within a prescribed period, and if we fail to do so, it may impose a fine of not less than RMB50,000 and up to RMB200,000.

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The local forestry bureaus in Sichuan and Yunnan where our forestry operations are primarily located have confirmed that our forestry operations are in compliance with applicable environmental and forestry laws and regulations in the PRC, and we have not been the subject of any administrative punishments due to any breach of law in respect of environmental matters or forestry operation. Our PRC legal advisers have confirmed that, besides the local environmental bureaus, these local forestry bureaus in Sichuan and Yunnan are also the appropriate competent authorities to confirm our compliance with the environmental laws and regulations in the PRC.

We are not aware of any pollution or hazardous substance problems in our forests. CFK, our independent forestry consultant, advised that based upon its experience with the identification of the presence of hazardous substances (if any) in other forested areas, hazardous substance problems are most likely to occur where (1) chemicals (herbicides or fertilisers) were applied to the forest; or (2) there are large industrial plants in close proximity to the forests. CFK understands that no herbicides or fertilisers have been used on our forest areas, and that there are no large chemical-using industries located on the forest boundary or near to the forests themselves.

Given that (i) we are not an enterprise involved in activities which generate high pollution; (ii) we have complied with all the relevant logging laws; (iii) we have obtained written confirmations from the local forestry bureaus evidencing that we are in compliance with applicable environmental and forestry laws and regulations in the PRC; (iv) the local environmental bureau in Sichuan has refused to accept an application for environmental impact assessment; and (v) we are already in the process of arranging such assessment for our Yunnan forests, our PRC legal advisers have advised that our non-completion of such environmental impact assessment in time would not materially and adversely affect us. Furthermore, our Controlling Shareholders have agreed that they will indemnify us against any liabilities which may arise from or in connection with our violation or non-compliance of environmental laws and obligations to undertake environmental impact assessments under the relevant PRC laws and regulations.

### ***Our chairman***

We are led by an experienced and professional management team who are committed to our long term success. The chairman of our Company and the founder of our Group, Mr. Li Kwok Cheong, entered the forest management industry in 2003, the same year when the Chinese government announced the No. 9 Policy which set out the directive for the private sector to participate in China's forestry development, and up to now he has accumulated approximately six years' experience in forestry business. We understand that as a result of Mr. Li's forestry experience and his business profile, Mr. Li has been admitted as a council member by the CCPEF, a national non-profit association in China managed by the SFA and established for promoting the proper use of resources, protection of the environment and sustainable economic development. Mr. Li's council membership not only offers the Group a higher profile in the industry, but also allows Mr. Li to participate at national level discussions and policies about the development of the forestry industry in China. Therefore, we believe that we are in a better position to remain competitive as we would have a better understanding (having participated in the process) when such policies and initiatives are formulated and/or implemented.

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## SUMMARY

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### ***Our investors***

We have two institutional investors in our Company, the Carlyle Group and Partners Group. Both of them are international private equity firms.

The Carlyle Funds, being part of the Carlyle Group, made a first round investment in our Company by entering into the First Share Purchase Agreement and the Accession and Amendment Agreement on 30 December 2007 and 18 March 2008, respectively. Pursuant to these agreements, they acquired in aggregate, 4,000,000 Shares representing approximately 12.5% of the then issued share capital of our Company for a total consideration of HK\$312,044,000 (equivalent to approximately US\$40,000,000). Mr. Li Han Chun, our executive Director, and Mr. Huang Fan, who was one of our Directors from December 2007 to March 2008, also invested in our Company by acquiring 3,200,000 Shares and 320,000 Shares respectively (which represented approximately 10% and 1% respectively of the then issued share capital of our Company) from Kingfly Capital on 31 March 2008 for a consideration of US\$32,000,000 and US\$3,200,000 respectively.

The Carlyle Funds, together with the Partners Group Funds, made a second round investment in our Company on 26 June 2009. For the second round investment, the Carlyle Funds acquired, in aggregate, 1,304,347 Shares representing approximately 4% of the then issued share capital of our Company for a total consideration of US\$14,999,990.5. The Partners Group Funds had acquired, in aggregate, 2,608,696 Shares representing approximately 7% of the then issued share capital of our Company for a total consideration of US\$30,000,004.

### ***Our customers***

Our products are mainly sold to wood processing factories in China, and our customers use our logs in the construction industry and for a wide range of consumer applications, such as furniture making, interior decorations, wood products and paper. According to CFK, the increase in China's domestic log production is not likely to meet the increasing demand. We believe that logs sourced from domestic commercial forests such as ours will become an increasingly important source of supply of timber resources in China to meet the growing demand for wood products. Furthermore, since more than two-thirds of China's forests are classified as young and middle-aged and generally not yet ready to be harvested, we believe that the size of our immediately harvestable forest resource base has positioned us well to capture China's increasing demand for timber.

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our five largest customers in aggregate accounted for approximately 93.9%, 85.3%, 44.8% and 56.2% respectively, of our revenue. During the same period, our largest customer in each respective period accounted for approximately 47.1%, 22.7%, 9.7% and 12.8% respectively, of our revenue. For the two years ended 31 December 2007, our five largest customers were all located in Sichuan. As a result of our commencement of logging operations in Yunnan in May 2008, our five largest customers for the year ended 31 December 2008 and the first half of 2009, were all located in Yunnan. Of our five largest customers during the Track Record Period, we understand that one is a trading company and all the rest are wood-processing factories. Of these top five customers during the Track Record Period, 6 are located in Sichuan, 6 in Yunnan and 1 in Hangzhou. Each of them is an Independent Third Party. Our five largest customers first became our customers between [2003 and 2008]. To the



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## SUMMARY

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best knowledge of our Directors, our five largest customers for the Track Record Period have operated for at least [3] years, their registered capital vary from RMB50,000 to RMB2,000,000, and their target customers are in the [construction and furniture-making industries]. Payment for our products is made before delivery and none of our sales are made on credit terms.

### ***Sichuan Earthquake and Yunnan Earthquake***

On 12 May 2008, an earthquake with a magnitude 8.0 on the Richter scale hit Sichuan, killing tens of thousands of people and causing severe physical damage and following which, there were various aftershocks from the earthquake. We conducted a comprehensive inspection of our forests from 13 May to 23 May 2008 to assess the impact of the earthquake on our Sichuan forests, which are located in Ya An City, Le Shan City and Liang Shan Zhou and are approximately 183, 189.5 and 377.7 kilometres, respectively, from the epicentre of the earthquake. Our forest workers and dedicated forest team participated in the inspection. We examined all areas of our forests in Ying Jing county, Ya An City (totalling about 2,835 hectares and with forest stock volume of approximately 788,000 m<sup>3</sup> as at 31 March 2008) because it is our forest closest to the epicentre and was more likely to suffer damage from the earthquake. We also examined, on a sampling basis, our forests in Le Shan City and Liang Shan Zhou where our other Sichuan forests (totalling about 9,612 hectares) are located. This examination covered a total of approximately 558 hectares of forests in Mei Gu Xian, Ma Bian Xian, Jin He Kou Qu, Jin Kou He Qu and Er Bian Xian. We inspected the forest and transportation conditions, and whether there were any loss or damage to our forestry assets. Based on our inspection, our Directors are of the view that the Sichuan Earthquake did not materially impact the condition of our tree stock and the roads surrounding our forests.

We have also invited the forestry bureau of Ying Jing County to assist in our inspection. The forestry bureau of the Ying Jing county has confirmed that after its detailed investigation, it was found that our forests in Ying Jing county were not affected by the Sichuan Earthquake and the forest trees and forest lands were in good condition. The relevant local forestry bureaus where our other Sichuan forests are located (namely, the forestry bureaus of Ma Bian Yi Zu Autonomous County, Mei Gu county, Jin Kou He Qu, Jin He Kou Qu, Er Bian Yi Zu Autonomous County), have also issued the same confirmation for our forests in their respective governing areas. We have received confirmations for all of our forests in Sichuan.

CFK, our independent forestry valuer, visited a sample of our forests in Sichuan in mid July 2008, and confirmed that it had not observed any damage to our Sichuan forests from the earthquake; all roads appeared in normal condition; there were no unusual or significant slips, inside or out of our Sichuan forests which CFK has visited; and there did not appear to be any material damage to properties or buildings around our Sichuan forests. CFK has further confirmed that the Sichuan Earthquake did not have any material impact on its valuation of our plantation assets as at 31 December 2008 and no adjustment to the valuation is considered necessary by CFK.

We have also confirmed with our major customers in Sichuan that they were not materially affected by the Sichuan Earthquake. We have not received any request for termination or postponement of orders or any reports of damage from our customers due to the Sichuan Earthquake, save for our customers' voluntary interruption of business ranging from about 3 to 7 days after the Sichuan Earthquake due to safety concerns. Our Directors have confirmed that we have not been subject to any claim as a result of the Sichuan Earthquake as at the Latest Practicable Date.



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## SUMMARY

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Immediately after the occurrence of the Sichuan Earthquake, we had, out of prudent safety concerns, voluntarily ceased logging for 4 days from 12 May 2008, but have since resumed normal logging operations. Although some of our customers had delayed their payments in May 2008 due to the Sichuan Earthquake, they had fully settled such payments by June 2008.

Based on the above, our Directors are of the view that the impact of the Sichuan Earthquake on our assets, operations and financial position is minimal and our assets and operations have not been materially affected by the subsequent aftershocks.

On 9 July 2009, an earthquake of magnitude 6.0 on the Richter scale hit Yunnan with its epicentre located in Yao An County. As a result, hundreds of people were injured and thousands of houses were damaged. Our forests in Yunnan are located in De Hong Zhou, Lin Cang City and Wen Shan Zhou which are approximately 312, 211 and 437 kilometres, respectively, from the epicentre of this earthquake. We have visited our Yunnan forests after this earthquake and determined that it has caused no apparent damage to our forests and the roads surrounding our forests. We were also advised by our Yunnan customers that they were not materially affected by the Yunnan Earthquake. Accordingly, our Directors are of the view that the impact of the Yunnan Earthquake to our assets, operations and financial positions is minimal. Our independent valuer CFK has also visited selected areas of our Yunnan forests in August 2009 after such earthquake and did not observe any evidence of earthquake damage.

### ***Global Financial Crisis***

From September 2008, various leading investment banks and financial institutions in the United States and Europe have either become insolvent or have sought emergency financial support from the US government as well as various governments in Europe. Such events have impacted both the global equity and credit markets, thereby resulting in funding shortfalls and tightening of credit. This lack of credit and liquidity has not only affected the banking and financial sectors, but also the commercial sector relying on normal trade facilities and bank borrowings. Whilst stimulus packages have been introduced by various government agencies around the world, including a RMB4 trillion stimulus package announced by the Chinese government in the second half of 2008, their effects to relieve a global recession remain to be seen. The Chinese economy has been adversely affected as declines in demand from the United States and Europe have led to a fall in exports from China to these countries.

Since the beginning of this global financial crisis, our Directors have closely monitored the macro-economic environment. As at the Latest Practicable Date, we had not experienced any material reduction in the amount of purchase orders confirmed by our customers for delivery. As our products are used in a wide variety of industries (construction, furniture, interior decoration, wood product and paper) in China, we believe that this diversification reduces our risk relating to a downturn in a particular industry. Our log prices for the first half of 2009 had decreased when compared with those in 2008. However, such decreases in log prices were offset by an increase in the volume of logs sold. In light of the foregoing, our Directors do not anticipate that, as of the Latest Practicable Date, revenue would drop significantly as a result of the effects of the global financial crisis. Since we make our products available to our customers only after we receive payment, we do not face the risk of default on our customers' payment obligations to us. As at the Latest Practicable Date, we were not engaged in any hedging transactions.

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## SUMMARY

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During the Track Record Period, we did not have any borrowings or bank facilities and we relied on the financial resources generated from our business activities and shareholder funds as our sources of funding. Going forward, however, we have decided to take on some bank borrowings if necessary or desirable and in this regard, on 1 September 2008, we entered into a non-binding credit facility agreement with Shenzhen Development Bank which has agreed, in principle, to grant us a credit line of RMB1,000 million for 3 years until 1 September 2011, subject to conclusion of credit facilities agreement(s). As at the Latest Practicable Date, we had not received any notification from the Shenzhen Development Bank that it would withdraw from such in-principle agreement.

In light of the foregoing, our Directors believe that our financial performance will not, in the near term, be materially and adversely affected by the current weak economic outlook. Our future plans as set forth in the section headed "Future plans" will continue to be implemented as described herein.

### COMPETITIVE STRENGTHS

We believe our strengths include the following, each of which is discussed in greater detail in the section headed "Business — Competitive Strengths" of this document:

- We have a large, sustainable and high quality forest resource base.
- Our forests are strategically located.
- We have a good track record of forest acquisition and prospects for future acquisitions.
- Our harvesting rate has a significant growth potential.
- We have an operating system in place and are a socially responsible and environmentally friendly company.
- We have a strong team of professional managers and consultants and an internationally well-known institutional investor.

### OUR FUTURE PLANS

Our aim is to build on our strengths to become a leading player in the privatisation process of the forest industry and a leading integrated forest resources company in the Asia Pacific region. We are seeking opportunities to acquire other high quality forests in China. On 16 July 2008 and 21 July 2008, we entered into non-binding memoranda with the governments of Ning Lang Xian and Liang He Xian, respectively, to confirm our interest in acquiring 200,000 hectares in Ning Lang Xian, Li Jian City, Yunnan, and approximately 66,667 hectares of forest in Liang He Xian, De Hong Zhou, Yunnan respectively. In respect of Ning Lang Xian, further to the non-binding memorandum entered into between the Group and the government of Ning Lang Xian in respect of acquiring 200,000 hectares of forests, the Group has entered into a framework agreement with the people's government of Ning Lang Xian on 17 September 2009 whereby the people's government agreed to facilitate the Group to purchase 800,000 mu (approximately 53,000 hectares out of the 200,000 hectares of forests as prescribed in the non-binding memorandum) of forests at a price no more than RMB600 per mu. During the period of this agreement (that is, 30 years from the date of this agreement), the people's

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## SUMMARY

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government of Ning Lang Xian shall not approve other forestry companies to acquire forests in Ning Lang Xian. The Group expects to complete such acquisition by 30 June 2010. The Group shall employ local forest workers to form its harvesting teams which shall be responsible for management, plantation and harvesting of these forests. The consideration for such forests shall be paid by cash to relevant forest workers. The Group is also expected to construct a sapling cultivation centre. In respect of Liang He Xian, as the Company has not decided on which particular forest to be acquired in Liang He Xian [as at the Latest Practicable Date], no such information is available in respect of Liang He Xian at this stage. We are still in the process of obtaining and assessing the details of the above forests and save as disclosed above, the final terms of our cooperation with these governments have not yet been concluded.

With the expansion in forest reserves, we believe our sales and profitability will increase. At the same time, we plan to further improve our business management and operations to cope with our rapid expansion, by recruiting experienced talent in the forestry industry, recruiting qualified university graduates specialised in forestry and forestry science, and engaging forestry consulting firms to work for us.

We intend to implement the following plans, each of which is discussed in greater detail in the section headed "Business — Our Future Plans" of this document:

- Seek rapid and sustainable growth through the acquisition and expansion of our forest reserves;
- Increase our harvesting rate;
- Carry out research and development on sustainable forest management and quality tree seedlings;
- Further strengthen our overall management and information systems; and
- Continue practising responsible environmental forestry.

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth a summary consolidated financial information for our Group for the three financial years ended 31 December 2008, and the six months ended 30 June 2008 and 2009, which have been derived from our consolidated financial statements included in Appendix I to this document prepared in accordance with IFRS. Our historical consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and consolidated cash flow information set forth below as at and for the three financial years ended 31 December 2008 and for six months ended 30 June 2009 have been audited by our independent reporting accountants, KPMG. Our historical consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow information as at and for the six months ended 30 June 2008 have not been audited. Historical results are not necessarily indicative of results for any future period. For further information regarding the basis of presentation of our consolidated financial information, see "Financial Information — Basis of Presentation" and Appendix I to this document.

## SUMMARY

### Consolidated Income Statements

	Years ended 31 December			Six months ended 30 June	
	2006 RMB	2007 RMB	2008 RMB	2008 RMB (unaudited)	2009 RMB
Turnover .....	70,122,597	160,318,269	544,947,744	117,056,039	373,247,913
Other operating income (Note 1) .....	47,784	81,796	119,636	119,636	489,381
Amortisation of insurance premium ...	(793,476)	(2,083,064)	(9,929,155)	(3,253,283)	(9,736,915)
Amortisation of lease prepayments ...	(250,847)	(724,362)	(4,916,734)	(1,395,370)	(3,861,236)
Auditor's remuneration .....	—	(30,000)	(132,468)	(118,831)	(43,000)
Changes in fair value of plantation assets less costs to sell (Note 2) — upon initial acquisition of the plantation assets .....	202,682,707	596,384,002	6,635,132,871	4,971,213,776	—
— changes during the year/period ....	147,816,803	202,097,037	(610,768,672)	367,210,086	518,868,021
Consultancy fees .....	(50,000)	(270,000)	(21,048,083)	—	(3,715,494)
Depreciation expenses .....	(157,861)	(186,272)	(230,112)	(72,300)	(129,629)
Foreign exchange loss .....	—	—	(3,053,644)	(2,266,753)	164,837
Operating expenses for logging activities (Note 3) .....	(15,778,965)	(38,729,085)	(145,559,950)	(31,116,950)	(95,346,650)
Other operating expenses .....	(2,813,311)	(5,501,365)	(14,286,072)	(7,606,428)	(6,723,880)
Rental expenses of properties .....	(2,319,209)	(2,233,402)	(1,366,471)	(883,153)	(943,550)
Reversal of fair value of plantation assets upon logging of the plantation assets (Note 4) .....	(54,946,100)	(121,116,600)	(384,853,771)	(85,801,879)	(277,949,785)
Staff costs .....	(3,416,634)	(3,519,494)	(98,198,144)	(91,390,410)	(5,650,510)
Travelling expenses .....	(537,231)	(932,214)	(1,708,679)	(867,354)	(796,003)
Profit from operations .....	339,606,257	783,555,246	5,884,148,296	5,230,826,826	487,873,500
Net financing income/(costs) .....	149,624	174,094	(2,373,598)	384,110	(55,802,860)
Profit before taxation .....	339,755,881	783,729,340	5,881,774,698	5,231,210,936	432,070,640
Income tax .....	—	—	—	—	—
Profit for the year/period (Note 5) .....	<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,774,698</u>	<u>5,231,210,936</u>	<u>432,070,640</u>
Attributable to: Equity shareholders of the Company .....	<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,774,698</u>	<u>5,231,210,936</u>	<u>432,070,640</u>
Earnings per share (RMB) — Basic (Note 6) .....	<u>0.15</u>	<u>0.35</u>	<u>2.61</u>	<u>2.32</u>	<u>0.19</u>

Notes:

- Other operating income represents the fair value of the saplings we receive from the PRC forestry bureaus, free of charge, for replanting purposes.
- Changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets represents the difference between the acquisition cost and the fair value of the acquired forest asset as at the date of acquisition.  
  
Changes in fair value of plantation assets less costs to sell during the year represents the aggregate of (i) the difference between the fair value of the existing forest assets as of the beginning and end of the period; and (ii) the difference between the fair value of the new forest assets as at the second day of acquisition and value as of the end of the period.
- Operating expenses for logging activities consist of costs of harvesting and the Forest Maintenance Fees.
- Reversal upon logging of the plantation assets represents the fair value of plantation assets, less costs to sell upon logging, and which were subsequently sold.

We engaged CFK, an independent forestry asset valuer, to assess the fair value of our plantation assets. As there was no active market for forests, CFK used a net present value approach based on the projected net cash flows expected to be derived from our forest assets in the future, and a number of other key assumptions, which include, among other things, the

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## SUMMARY

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*discount rate, market prices for each grade of logs produced, changes in production costs, natural tree growth, and the rate of harvesting and planting of trees at our forests.*

- 5. If changes in fair value of plantation assets less costs to sell were not taken into account, we would have made losses for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 in the amount of RMB10,743,629, RMB14,751,699, RMB142,589,501 and RMB86,797,381 respectively.*

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## SUMMARY

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### Consolidated Statements of Comprehensive Income

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB (unaudited)	RMB
<b>Profit for the year/period</b> . . .	339,755,881	783,729,340	5,881,774,698	5,231,210,936	432,070,640
<b>Other comprehensive income for the year/period (note)</b> . . . . .	—	—	(273,221)	(3,130,037)	(1,778,500)
<b>Total comprehensive income for the year/period</b> . . . . .	<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,501,477</u>	<u>5,228,080,899</u>	<u>430,292,140</u>
<b>Attributable to:</b>					
Equity shareholders of the Company . . . . .	<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,501,477</u>	<u>5,228,080,899</u>	<u>430,292,140</u>

*Note: Other comprehensive income for the year/period represents exchange differences on translation of financial statements of subsidiaries incorporated outside the PRC .*



## SUMMARY

### Consolidated Balance Sheets

	At 31 December			At 30 June
	2006 RMB	2007 RMB	2008 RMB	2009 RMB
<b>Non-current assets</b>				
Property, plant and equipment, net .....	602,918	442,851	6,951,089	8,791,507
Lease prepayments .....	10,641,813	31,468,446	225,826,779	221,965,543
Plantation assets .....	566,900,000	1,338,200,000	7,693,000,000	7,914,000,000
<b>Total non-current assets</b> ....	<u>578,144,731</u>	<u>1,370,111,297</u>	<u>7,925,777,868</u>	<u>8,144,757,051</u>
<b>Current assets</b>				
Inventories — timber logs .....	684,176	346,409	—	20,407,485
Other receivables .....	6,238,089	21,329,976	37,580,311	58,612,384
Cash and cash equivalents ...	24,987,607	1,028,859	104,530,763	381,977,066
<b>Total current assets</b> .....	<u>31,909,872</u>	<u>22,705,244</u>	<u>142,111,074</u>	<u>460,996,935</u>
<b>Current liabilities</b>				
Other payables .....	(3,236,474)	(2,269,073)	(311,485,494)	(459,966,834)
<b>Total current liabilities</b> .....	<u>(3,236,474)</u>	<u>(2,269,073)</u>	<u>(311,485,494)</u>	<u>(459,966,834)</u>
<b>Net current assets/ (liabilities)</b> .....	<u>28,673,398</u>	<u>20,436,171</u>	<u>(169,374,420)</u>	<u>1,030,101</u>
<b>Total assets less current Liabilities</b> .....	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,756,403,448</u>	<u>8,145,787,151</u>
<b>Non-current liabilities</b>				
Other payables .....	—	—	(321,053,207)	—
<b>Total non-current liabilities</b> .....	<u>—</u>	<u>—</u>	<u>(321,053,207)</u>	<u>—</u>
<b>Net assets</b> .....	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,435,350,241</u>	<u>8,145,787,151</u>
<b>Capital and reserves</b>				
Share capital .....	10,000,001	10,000,000	232,245	256,606
Reserves .....	596,818,128	1,380,547,468	7,435,117,996	8,145,530,545
<b>Total equity attributable to equity shareholders of the Company</b> .....	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,435,350,241</u>	<u>8,145,787,151</u>

## SUMMARY

### Consolidated Statements of Cash Flows

	Years ended 31 December			Six months ended 30 June	
	2006 RMB	2007 RMB	2008 RMB	2008 RMB (unaudited)	2009 RMB
<b>Operating activities</b>					
<b>Net cash generated from operating activities</b> . . . . .	43,490,926	96,042,152	376,592,857	47,864,050	284,887,561
<b>Investing activities</b>					
Payment for purchase of fixed assets . . . . .	(403,606)	(26,205)	(7,271,789)	(382,462)	(468,507)
Capital expenditure in lease prepayments . . . . .	(6,792,357)	(22,550,995)	(68,423,790)	(9,570,875)	(50,967,150)
Capital expenditure in plantation assets . . . . .	(29,165,077)	(97,597,794)	(273,695,160)	(38,403,134)	(203,868,599)
Proceeds from disposal of plantation assets . . . . .	—	—	74,800	74,800	—
Interest received . . . . .	149,624	174,094	1,480,623	384,110	176,309
<b>Net cash used in investing activities</b> . . . . .	(36,211,416)	(120,000,900)	(347,835,316)	(47,897,561)	(287,586,028)
<b>Financing activities</b>					
Proceeds from issue of shares, net of issue expense . . . . .	—	—	248,118,354	248,118,354	280,144,770
Payment to shareholder upon reorganisation . . . . .	—	—	(173,373,991)	—	—
<b>Net cash generated from financing activities</b> . . . . .	—	—	74,744,363	248,118,354	280,144,770
<b>Net movement in cash and cash equivalents</b> . . . . .	7,279,510	(23,958,748)	103,501,904	248,084,843	277,446,303
<b>Cash and cash equivalents at 1 January</b> . . . . .	17,708,097	24,987,607	1,028,859	1,028,859	104,530,763
<b>Cash and cash equivalents at 31 December/30 June</b> . . . . .	24,987,607	1,028,859	104,530,763	249,113,702	381,977,066

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## SUMMARY

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### PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

The profit forecast of our Group for the year ending 31 December 2009 is prepared on the bases and assumptions as set out in Appendix III to this document.

Our Directors believe that on the basis and the assumptions set out in Appendix III to this document and in the absence of unforeseen circumstances, the profit attributable to equity holders of our Company for the year ending 31 December 2009 will be not less than RMB[508.9] million, calculated after changes in fair value of our plantation assets less costs to sell (*Note 1*).

Forecast profit attributable to equity holders of the Company ( <i>Note 2</i> ) .....	Not less than RMB[508.9] million (approximately HK\$[●] million)
Unaudited forecast earnings per Share pro forma fully diluted .....	RMB[0.170] (approximately HK[●])

The following table illustrates the sensitivity of the net profit attributable to the equity holders of our Company to levels of revaluation gain or loss on our Group's plantation assets for the year ending 31 December 2009:

Changes in the estimated fair value of plantation assets less costs to sell as at 31 December 2009 compared to the relevant estimated revaluation gain of RMB[656] million .....	-15%	-10%	-5%	5%	10%	15%
Impact on profit attributable to the equity holders of the Company (RMB in millions) .....	(99)	(66)	(33)	33	66	99

*Notes:*

(1) Our forecast profit of RMB[508.9] million for the year ending 31 December 2009 reflects an estimated revaluation gain on our plantation assets less costs to sell of RMB[656.1] million for the year ending 31 December 2009. The gain/loss on change in fair values of the Group's plantation assets is calculated (i) on the same basis that has been adopted by the Group in valuing its plantation assets and (ii) on the assumption that there will be no material change in the key parameters which have been used by CFK in determining the fair value of the Group's plantation assets as at 30 June 2009. See the section of Appendix III headed "Assumptions with respect to change in fair value of plantation assets" for further information.

(2) The bases on which the above profit forecast has been prepared are set out in Appendix III to this document.

## SUMMARY

Key assumptions underlying valuation of the Group's plantation assets as at 31 December 2009 are set out below:

	<u>Sichuan</u>	<u>Yunnan Luxi</u>	<u>Yunnan Wenshan</u>
Log price (RMB/m <sup>3</sup> )			
● Chinese fir .....	935	919	941
● Yunnan pine .....	n/a	919	n/a
● Beech .....	n/a	1,197	n/a
● Birch .....	n/a	1,268	n/a
Cost			
● Annual cost (RMB/hectare) .....	1,050	1,050	1,050
● Logging cost (RMB/m <sup>3</sup> ) .....	226	273	273
● Harvesting and sales costs (RMB/m <sup>3</sup> ) .....	63	53	60
Total yield estimate (m <sup>3</sup> ) (note) .....	2,590,000	12,592,000	16,780,000

*Note: "Yield estimate" above refers to total volume the Group expects to harvest from the year immediately after the date of valuation to the ending year of the existing harvesting cycle. For example, the total yield estimate adopted for the valuation of forests as at 31 December 2008 is estimated as total volume to be harvested from 2009 (i.e. the year immediately after 31 December 2008) to end of the existing harvesting cycle of each forest.*

The following table illustrates the sensitivity of the net profit attributable to the equity holders of the Company to changes in the above key assumptions:

<u>RMB million</u>	<u>5.0% decrease</u>	<u>5.0% increase</u>
Log price .....	(661)	660
Cost .....	216	(216)
Forest stock volume .....	(533)	531

This sensitivity illustration is intended for reference only, and any variation could exceed the amounts indicated. Investors should note in particular that (i) this sensitivity illustration is not intended to be exhaustive and is limited to the impact of changes in the fair value of our plantation assets less costs to sell and changes in key assumptions including log price, cost and forest stock volume (ii) the profit forecast is subject to further and additional uncertainties generally. While we have considered for the purposes of the profit forecast what we believe is the best estimate of the revaluation gain on our plantation assets less costs to sell as at 31 December 2009, our actual revaluation gain or loss as at 31 December 2009 may differ materially from our estimate and is dependent on market conditions and other factors that are beyond our control.

### DIVIDEND POLICY

The recommendation for the amount of dividends will be subject to the discretion of our Directors and will be dependent upon our Company's future operations and earnings, financial condition, capital requirements and surplus, contractual restrictions, payments by subsidiaries of cash dividends to our Company, the amount of distributable profits based on our Articles, the Cayman Companies Law and the applicable laws and regulations, and other factors that our Directors deem relevant. In addition, the Controlling Shareholders, subject to our Articles, will be able to influence our Company's dividend policy.

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## SUMMARY

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Subject to the factors described above and the statutory reserve requirement, our Directors currently intend to recommend at the next annual general meeting of the Company an annual dividend of approximately [20% to 25% of the turnover of the Company to be presented in the Company's audited financial statements as of 31 December 2009]. Cash dividends on the Shares, if any, will be paid in Hong Kong dollars.

### RISK FACTORS

#### Risks Relating to our Business

- Our results may fluctuate due to revaluation gains or losses on our forest assets.
- Our customers were primarily located, and all of our log sales came from our forests, in Sichuan and Yunnan, areas which have been and may be affected by earthquakes.
- We have a limited operating history and a limited track record.
- We have only recently expanded into Yunnan and we may not be able to meet the demands arising from our rapid expansion.
- We have significant capital commitments, capital expenditures and investments planned for 2009 and 2010.
- We may face increased costs for new forest acquisitions.
- Our revenues are sensitive to log price fluctuations in the forestry industry.
- Our forests are subject to PRC environmental regulations.
- We depend on certain major customers.
- We may face increased operating costs and staff costs.
- We recorded net current liabilities during the Track Record Period.
- Our inability to obtain logging permits with sufficient logging amount could reduce our future revenues.
- Changes in tax laws and regulations could increase our operating costs.
- Our revenues are solely dependent on the PRC market.
- Our inability to acquire enough immediately harvestable forests may affect our ability to meet demand.
- Our sales are subject to the continued growth of the construction, furniture and paper industries in China.
- The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations.

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## SUMMARY

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- Our forest survey and knowledge of our forests are subject to errors of survey.
- Our insurance coverage may not adequately protect us against certain risks.
- Our predecessor company's name has been misused by others.
- We have never engaged any environmental consultants to perform soil sampling or to prepare environmental reports of our forests.
- We generally do not enter into sales contracts of more than one year with our customers.
- We are heavily dependent on key personnel and consultants.
- We are dependent on the availability of large numbers of workers to perform manual labour.
- Abnormally high or prolonged levels of rain or snow at our forest locations may adversely impact our ability to harvest trees.
- Our Controlling Shareholders have and will maintain significant influence over our management and affairs and could exercise this influence against your best interests.
- Our forests may not grow in accordance with our expectations.
- We may not be able to continue to use certain premises.

### **Risks Relating to our industry**

- Our forests are in China and are subject to significant PRC regulation. Regulatory changes may adversely affect our forests, our forest rights, and our business, financial condition and results of operations.
- We face competition from other companies in the forestry industry.
- The forestry industry is affected by weather conditions and natural and man-made disasters outside of our control.
- The forestry industry faces competition from wood substitutes.

### **Risks Relating to Conducting Operations in China**

- Political and economic policies of the PRC government may adversely affect our business and results of operations and may affect our ability to sustain our future growth and expansion strategies.
- Changes in foreign exchange regulations and movement in Renminbi exchange rates may adversely affect our business, our results of operations and our ability to remit dividends.



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## SUMMARY

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- Our financial results may be adversely affected by the new PRC EIT Law.
- Our financial results may be adversely affected by the new PRC Labour Contract Law.
- Interpretation of PRC laws and regulations involves uncertainty that could adversely affect our business and results of operations and the value of our Shares.
- It may be difficult to effect service of process upon us or our directors or executive officers who live in China or to enforce against them in the PRC judgments obtained from non-PRC courts.
- The outbreak of any severe contagious diseases in China, if uncontrolled, could adversely affect our results of operations and the price of the Shares.