
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Our Group can carry on its business independent of and without reliance on Kingfly Capital and Mr. Li Kwok Cheong for the following reasons.

Management Independence — As at the Latest Practicable Date, no executive director has overlapping roles and responsibilities in any business operation other than the Group.

Please refer to the section headed "Directors, Senior Management and Employees" for details of the expertise and experience of the Directors;

Operational Independence — The Group has not entered into any connected transaction with any connected persons of our Group and has independent operation capabilities and independent access to customers. Nonetheless, with a view to enhance its corporate governance, our Group has adopted internal control procedures to deal with conflicts of interest between our Directors/members of senior management and our Group. Pursuant to our internal control procedures, all members of senior management and Directors are required to report any potential conflicts of interests between our Group and themselves, as well as any transactions or relationships which can reasonably be foreseen to give rise to conflicts of interest, to the Board. The information will be recorded in a register maintained by our company secretary which will be available for inspection during meetings of the Board. Furthermore, if any member of the senior management and any Director proposes to enter into an agreement or a transaction with our Company or our subsidiaries, he/she shall report to and seek the prior approval of the Board.

Our Articles of Association provide that a Director shall not vote (nor be counted in the quorum) on any resolution the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, subject to the conditions provided therein. Furthermore, according to our internal corporate governance manual, the Board has the duty to decide whether any Director may participate in any discussions or vote on any matters that have given rise or may give rise to a conflict of interest. A board meeting (as opposed to a decision made by way of written resolutions) shall be held to discuss such matter and the independent non-executive Directors with no conflict of interest are required to be present at such meetings.

Financial Independence — During the Track Record Period, no financial assistance had been provided by any connected person to any member of our Group nor our Group to any connected person. Our Group has its own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third party financing. For details of our internal control system, please refer to the section headed "Business — Internal Controls" to this document.

NON-COMPETITION UNDERTAKING

The Controlling Shareholders do not have any interest in any business that competes or is likely to compete with the Group and none of our Directors is interested in any business

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apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business.

Nonetheless, the Controlling Shareholders have entered into a non-competition deed (the "Deed") in favour of our Company, pursuant to which the Controlling Shareholders have undertaken to our Company (for itself and for the benefit of its subsidiaries) that he/it would not, and would procure that his/its associates would not, during the restricted period set out below, directly or indirectly, either on his own account or in conjunction with or on behalf of any person, firm or company, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in direct or indirect competition with the business of any member of our Group from time to time (the "Restricted Business").

Such non-competition undertaking does not apply to:

- (a) any interests in the shares of any member of our Group; or
- (b) interests in the shares of a company other than our Group which shares are listed on a recognised stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts which are prepared according to the applicable accounting principles and standards; or
 - (ii) the total number of the shares held by the Controlling Shareholder and/or his/its associates in aggregate does not exceed 5% of the issued shares of the company in question and the Controlling Shareholder and/or his/its associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by the Controlling Shareholder and his/its associates in aggregate.

The "restricted period" stated in the Deed refers to the period during which (i) the Shares of our Company remain listed on the Hong Kong Stock Exchange; and (ii) the Controlling Shareholder and/or his/its associate holds an equity interest in our Company and (iii) the Controlling Shareholder and/or his/its associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company.

DIRECTORS

None of the Directors has any competing business with the Group or hold directorship in any other business owned by Mr. Li Kwok Cheong. As all the independent non-executive Directors are not connected with the Controlling Shareholders, they will consider matters from an independent perspective. Our Directors consider that, in situations where the interest of the Controlling Shareholder or its/his associates are conflicted with our Group, the Board would still be able to function properly and effectively and the Group's operations will not be affected.

In view of the fact that there are three independent non-executive Directors and two non-executive Directors out of the seven board members, the Company considers that the Board

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includes a balanced composition so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

In addition, the three independent non-executive Directors possess different knowledge and industry experiences, which, in the Company's opinion, enable them to make a positive contribution to the development of the Company's strategy and policies through independent and constructive comments. For instance, Mr. Wong Tak-jun, one of the independent non-executive Directors, is a Professor of Accountancy, and the Dean of the Faculty of Business Administration of the Chinese University of Hong Kong (CUHK) and is experienced in accounting policies and standards. Mr. Wang Wei Ying and Mr. Liu Can, the other two independent non-executive Directors, have sufficient understanding of the PRC's forestry industry.

Mr. Li Zhi Tong, who is our non-executive Director, has provided certain general advice to the Group such as providing update information regarding the new development of general PRC policies and regulatory issues on the forestry industry in China and are familiar with our operation. On 19 April 2005, we entered into a consultancy agreement with Mr. Li Zhi Tong, which agreement expired on 14 April 2008 without renewal. Despite that Mr. Li had been our consultant, he had provided only general advice to us during the Track Record Period and was not involved in our day-to-day business operations or management. Although he provided advice to us, his advice were not of such importance that it would affect our operations and business development. During the Track Record Period, we sought advice from Mr. Li mainly on how some local authorities would generally interpret and implement some forestry-related laws and through Mr. Li, became acquainted with some local government officials and other industry participants in some projects. As our business operation is now more mature, we do not often need to consult Mr. Li. Accordingly, our Directors are of the view that the expiry of the consultancy agreements with Mr. Li did not and will not affect our operations and business development. At the same time, Mr. Li can continue to contribute their knowledge and experience to us in his role of non-executive Directors.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of the Shareholders:

- (i) the independent non-executive Directors will review, on an annual basis, the compliance with the non-compete undertaking by the Controlling Shareholders under the Deed;
- (ii) the Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed;
- (iii) our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed in the annual reports of our Company; and
- (iv) the Controlling Shareholders will make confirmation on compliance with their undertaking under the Deed in the annual report of our Company.