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, including our historical consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and consolidated cash flow information; which have been derived from our consolidated financial statements included in the accountant's report set out in Appendix I to this document prepared in accordance with IFRS. 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.

Consolidated Income Statements

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB (unaudited)	RMB
Turnover	70,122,597	160,318,269	544,947,744	117,056,039	373,247,913
Other operating income	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					
— 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)/gain	—	—	(3,053,644)	(2,266,753)	164,837
Operating expenses for logging activities	(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 and sales of the plantation assets	(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
Financing income	149,624	174,094	1,480,623	384,110	176,309
Financing expenses	—	—	(3,854,221)	—	(55,979,169)
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	339,755,881	783,729,340	5,881,774,698	5,231,210,936	432,070,640
Attributable to:					
Equity shareholders of the Company	339,755,881	783,729,340	5,881,774,698	5,231,210,936	432,070,640
Earnings per share (RMB)					
— Basic	0.15	0.35	2.61	2.32	0.19

Note: If changes in fair value of plantation assets less costs to sell were not taken into account, we would have had 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.

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
Profit for the year/ period	339,755,881	783,729,340	5,881,774,698	5,231,210,936	432,070,640
Other comprehensive income for the year/ period					
— Exchange differences of translation of financial statements of subsidiaries incorporated outside the PRC, net of nil tax	—	—	(273,221)	(3,130,037)	(1,778,500)
Total comprehensive income for the year/ period	339,755,881	783,729,340	5,881,501,477	5,228,080,899	430,292,140
Attributable to:					
Equity shareholders of the Company	339,755,881	783,729,340	5,881,501,477	5,228,080,899	430,292,140

Consolidated Balance Sheets

	At 31 December			At 30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	RMB
Non-current assets				
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
Total non-current assets	578,144,731	1,370,111,297	7,925,777,868	8,144,757,050
Current assets				
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
Total current assets	31,909,872	22,705,244	142,111,074	460,996,935
Current liabilities				
Other payables	(3,236,474)	(2,269,073)	(311,485,494)	(459,966,834)
Total current liabilities	(3,236,474)	(2,269,073)	(311,485,494)	(459,966,834)
Net current assets/ (liabilities)	28,673,398	20,436,171	(169,374,420)	1,030,101
Total assets less current liabilities	606,818,129	1,390,547,468	7,756,403,448	8,145,787,151
Non-current liabilities				
Other payables	—	—	(321,053,207)	—
Total non-current liabilities	—	—	(321,053,207)	—
Net assets	606,818,129	1,390,547,468	7,435,350,241	8,145,787,151
Capital and reserves				
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
Total equity attributable to equity shareholders of the Company	606,818,129	1,390,547,468	7,435,350,241	8,145,787,151

Consolidated Statements of Cash Flows

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB (unaudited)	RMB
Operating activities					
Net cash generated from operating activities	43,490,926	96,042,152	376,592,857	47,864,050	284,887,561
Investing activities					
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)	(269,840,939)	(38,403,134)	(203,868,599)
Proceeds from disposal of plantation assets	—	—	74,800	74,800	—
Interest expenses	—	—	(3,854,221)	—	(32,458,081)
Interest received	149,624	174,094	1,480,623	384,110	176,309
Net cash used in investing activities	(36,211,416)	(120,000,900)	(347,835,316)	(47,897,561)	(287,586,028)
Financing activities					
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)	—	—
Net cash generated from financing activities	—	—	74,744,363	248,118,354	280,144,770
Net movement in cash and cash equivalents	7,279,510	(23,958,748)	103,501,904	248,084,843	277,446,303
Cash and cash equivalents at 1 January	17,708,097	24,987,607	1,028,859	1,028,859	104,530,763
Cash and cash equivalents at 31 December/ 30 June	24,987,607	1,028,859	104,530,763	249,113,702	381,977,066

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our historical consolidated financial statements and the notes related thereto included in Appendix I to this document. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors". Our consolidated financial statements are included in Appendix I to this document and were prepared in accordance with IFRS. References below to the "2006 financial year", the "2007 financial year" and the "2008 financial year", unless otherwise noted, are references to our financial years ended as at 31 December 2006, 2007 and 2008, respectively. References below to the "2008 first half" and the "2009 first half" are references to the six months ended 30 June 2008 and 2009, respectively. Unless otherwise stated or the context otherwise requires, all financial information of our Company presented herein comprises consolidated financial information of the Group, meaning our Company, its subsidiaries and predecessor entity on a consolidated basis and, in respect of the period before our Company became the holding company of such subsidiaries, the entities which carried out the business of the Group. References to financial information of the "Company" and "our Company" in this section should be construed accordingly.

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 rights, 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 the China Forestry Statistical Yearbook 2007. We have been operating forestry business 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 sales of logs. We are focused on the development and supply of logs to meet the increasing demand from manufacturers in construction, furniture, interior decoration, wood product and paper industries in China.

For each of the three years ended 31 December 2006, 2007 and 2008, and for the six months ended 30 June 2009, our turnover was approximately RMB70.1 million, RMB160.3 million, RMB544.9 million and RMB373.2 million, respectively. Our turnover grew at a CAGR of approximately 178.8% between 2006 and 2008.

As at 30 June 2009, our forests covered a total of 171,780 hectares. During the Track Record Period, all of our forests were located in Sichuan and Yunnan except for approximately 6 hectares of forest in Anhui which were sold on 2 April 2008. For discussion purposes, because said Anhui forest is not significant, we will mostly refer to our forests as being in

Sichuan and Yunnan. We only began generating revenue in Yunnan from May 2008, when we began logging operations there. We acquired our Yunnan Wenshan Forest in July 2008 but had not yet begun logging operations there as at 30 June 2009.

We keep records of our forestry assets upon acquisition, including the area of forest, species, tree age and wood volume, and details of forestry assets are also maintained after each logging and re-planting. These records are substantially consistent with the relevant government surveys. After acquisition, we also constantly record and monitor the health and growth of our forestry assets. Each day our forest workers inspect the forest for which they are responsible. They will check the conditions of tree growth, logging and replanting. They will also examine whether there is any disease, pest or fire danger in the forests. After inspection of the forest, they will record the results. Every quarter, they are required to submit a report of tree growth and a report on changes in conditions of trees to our resources management department. All these records set out details of our trees and forests, such as their location, area, tree species, stem diameter, tree spacing, growth condition, number of trees per mu, tree height, forest stock volume per mu, number of trees logged, number of trees replanted, number of trees which have survived after replanting, and any finding of fire, pest, and illegal logging. Such reports are subject to the verification and approval of our dedicated forest team, which will also inspect the forests quarterly and if necessary, monthly. Based on these reports and the records of logging and new forest acquisition, we will be able to possess details of our forests, including the estimated number of trees, as at the end of the relevant period. Therefore, the recording of our forestry assets is an on-going process. In addition, at each balance sheet date during the Track Record Period, instead of performing physical tree count, we engage an independent forestry valuer for valuation of our forestry assets.

BASIS OF PRESENTATION

Our Group consists primarily of various forestry-related businesses formed as part of the Reorganisation which we underwent. Our historical consolidated financial statements include the results of operations of the companies comprising our Group for the Track Record Period as if the current group structure had been in existence throughout the entire Track Record Period. Pursuant to the Reorganisation, the forestry rights to our Sichuan forests were transferred from Beijing Zhaolin to Kunming Ultra Big. See "History, Reorganisation and Corporate Structure — Reorganisation of our Company — Restructuring of our PRC subsidiaries".

Beijing Zhaolin was a predecessor member of our Group during the Track Record Period. Mr. Li Kwok Cheong has had control over Beijing Zhaolin since its establishment for the following reasons:

(a) Each of Mr. Cao Jin Fu (who held a 15% equity interest in Beijing Zhaolin prior to September 2001), Mr. Wang Bo Hua (who held a 35% equity interest in Beijing Zhaolin prior to September 2001 and a 50% equity interest in Beijing Zhaolin thereafter but prior to December 2005) and Mr. Xu Zongping and Mr. Liu Fengcai (who held, in aggregate, a 40% equity interest in Beijing Zhaolin between December 2005 and August 2007) had at, all relevant times, held equity interest in Beijing Zhaolin on behalf of Mr Li Kwok Cheong. Consequently, at all relevant times during the Track Record Period, Mr Li Kwok Cheong was the ultimate controller of Beijing Zhaolin. This is evidenced by:

(i) Mr. Li Kwok Cheong being the one responsible for providing the funding to such shareholders when Mr. Cao Jin Fu, Mr. Wang Bo Hua, Mr. Xu Zongping and Mr. Liu Fengcai acquired the equity interest in Beijing Zhaolin;

(ii) each of Mr. Cao Jin Fu, Mr. Wang Bo Hua, Mr. Xu Zongping and Mr. Liu Fengcai having confirmed that he had obtained the consent of Mr. Li Kwok Cheong before exercising his shareholder rights at the shareholders' meeting of Beijing Zhaolin acted in accordance with the instructions of Mr. Li Kwok Cheong at such meetings; and

(iii) any income or loss arising from the holding of equity interests in Beijing Zhaolin by each of Mr. Cao Jin Fu, Mr. Wang Bo Hua, Mr. Xu Zongping and Mr. Liu Fengcai had been taken up by Mr. Li Kwok Cheong.

(b) During the period from 6 August 2001 to 3 September 2001, Mr. Li Kwok Cheong held 50% of the shareholding in Beijing Zhaolin while the other 2 shareholders, namely Mr. Wang Bo Hua and Mr. Cao Jin Fu who are Independent Third Parties, held as to 35% and 15% of the shareholding respectively. Accordingly, Mr. Li was the controlling shareholder of Beijing Zhaolin during this period.

(c) During the period from 4 September 2001 to 27 December 2005, Mr. Li Kwok Cheong held 50% of the shareholding in Beijing Zhaolin and Mr. Wang Bo Hua held the remaining 50% shareholding upon the transfer of the 15% shareholding by Mr. Cao Jin Fu to Mr. Wang Bo Hua. Given that Mr. Wang Bo Hua was not a director of Beijing Zhaolin and was not involved in its daily operation, Mr. Li remained as the controlling shareholder of Beijing Zhaolin during this period.

(d) As a result of another shareholding change on 27 December 2005, Mr. Li Kwok Cheong held 60% of the shareholding in Beijing Zhaolin whilst another 2 new shareholders (both of which are Independent Third Parties) held the remaining 40% shareholding from 27 December 2005 to 4 August 2007. Accordingly, Mr. Li was the controlling shareholder of Beijing Zhaolin during this period.

(e) Since 5 August 2007, Mr. Li Kwok Cheong had been the sole shareholder of Beijing Zhaolin until Beijing Zhaolin was dissolved and deregistered on 4 September 2008.

Because the ultimate equity holder, Mr. Li Kwok Cheong, controlled the business operations of Beijing Zhaolin and continues to control the companies comprising our Group after the Reorganisation, our financial information has been prepared as a reorganisation of businesses under common control. Merger accounting has been applied in the preparation of our financial information. Accordingly, the relevant assets and liabilities of Beijing Zhaolin transferred to Kunming Ultra Big have been recognised at historical cost. All material intra-group transactions and balances have been eliminated on combination.

We have in accordance with IFRS prepared consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three financial years ended 31 December 2008, and for the six months ended 30 June 2008 and 2009 and consolidated balance sheets as at 31 December 2006, 2007, 2008 and as at 30 June 2009, combining the businesses within the Group with that of the Company for such periods and as at such dates for purposes of our consolidated financial statements. See "History, Reorganisation and Corporate Structure" for more information.

FACTORS AFFECTING RESULTS OF OPERATIONS

Our financial results and the period-to-period comparison of our financial results are affected by a number of factors, the most important of which are:

(1) Market demand and supply conditions for logs

We are an upstream timber company. Our business focuses on managing our forestry resources and supplying our customers with logs. As log sales are the sole contributor to our turnover, our results of operations depend on the market demand and supply conditions for logs and the prices we are able to obtain for our logs.

Log prices fluctuate according to the supply and demand of logs on the open market, which is affected by the overall condition of the world economy, among other factors. In recent years, log prices have generally been increasing due, in large part, to strong demand for raw materials from the PRC and a tight supply environment for logs. From 2001 to 2007, domestic log prices in nominal terms have risen by [3.9%] per annum.

We price our logs by taking into account a variety of factors, such as perceived market trends, market price levels, sales volume, required delivery schedules and our relationship with specific customers. For our major customers, a base price and an annual volume is agreed upon in advance, followed by actual price and delivered volumes confirmed on an ongoing basis. Base price is determined at the signing of an annual contract. Actual price is determined subsequently upon a customer submitting an order under the annual contract. Both base price and actual price are based on the then-prevailing market prices for logs. Because of market price fluctuations, this pricing method allows our largest customers some price certainty at the time the annual contract is signed, but also provides us with flexibility to match prevailing market prices at the time the customer order is entered into subsequent to the signing of the annual contract. The log prices we offer our customers vary in accordance with our negotiations with each customer. Our log prices are calculated as roadside sales, meaning we deliver our logs to the side of the road for customer pickup and subsequent transportation at the customer's own expense. Our log prices thus do not include transportation costs.

For the three years ended 31 December 2008, all of our turnover came from sales of Chinese fir, Yunnan pine, beech and birch logs harvested in our Sichuan and Yunnan forests, with sales of birch and Chinese fir accounting for most of our turnover during this period of which 36.3% was from the sales of birch and 33.9% was from the sales of Chinese fir. The average log prices of our beech and birch logs are higher than those of Chinese fir and Yunnan pine logs.

The following table shows our average log prices (excluding VAT) in RMB by cubic metres of wood at roadside sales for the periods indicated.

	Chinese fir		Yunnan pine		Beech		Birch	
	Average Log Price RMB/m³ at Roadside	Annual Change (compared to price 12 months prior) (%)	Average Log Price RMB/m³ at Roadside	Annual Change (compared to price 12 months prior) (%)	Average Log Price RMB/m³ at Roadside	Annual Change (compared to price 12 months prior) (%)	Average Log Price RMB/m³ at Roadside	Annual Change (compared to price 12 months prior) (%)
2005 year	885	Not Applicable	896	Not Applicable	—		—	
2006 year	920	3.9%	915	2.1%	—		—	
2007 year	944	2.6%	945	3.3%	—		—	
2008 year	867	-8.2%	867	-8.25%	1,150	Not Applicable	1,239	Not Applicable
2008 first half	900	Not Applicable	867	Not Applicable	1,150	Not Applicable	1,239	Not Applicable
2009 first half	853	-5.2%	839	-3.2%	1,284	11.7%	1,384	11.7%

Note:

The reason for the decrease in the 2008 financial year in our average log prices (excluding VAT) is because we applied 4% VAT for the periods prior to April 2008 (when our logs were sold in the name of Beijing Zhaolin, our predecessor entity, which enjoyed a 4% VAT rate during the Track Record Period), and 13% VAT after April 2008 (when our logs were sold in the name of Kunming Ultra Big, our PRC subsidiary, which is subject to a 13% VAT rate, namely the rate applicable to non-small forestry enterprises whose turnover has reached a certain level). Our logs are sold at a price including VAT, and if we compare our average selling price (including VAT) of Chinese fir logs during the two years of 2007 and 2008, it increased by approximately 0.8% in the 2008 financial year, primarily due to the change of the market price and market demand in the PRC and the impact of the global financial crisis which commenced in September 2008. In respect of our average selling price (including VAT) of Yunnan pine logs, it decreased by approximately 0.3% in the 2008 financial year, primarily due to the change of the market price and market demand in the PRC and the impact of the global financial crisis which commenced in September 2008.

Movements in the Group's log prices (excluding VAT) since the global financial crisis in September 2008 are set out below:

(RMB/m³)	Month ended 30 September 2008	Quarter ended 31 December 2008	Six months ended 30 June 2009	Quarter ended 30 September 2009
Chinese fir	874	874	853	853
Yunnan pine	860	860	839	839
Beech	1,141	1,141	1,284	1,573
Birch	1,228	1,228	1,384	1,748

The average price for Chinese fir and Yunnan pine dropped during the six months ended 30 June 2009, as a result of fall in demand for such logs after the global financial crisis which commenced in the third quarter of 2008. The average price for Chinese fir and Yunnan pine during the third quarter of 2009 remained stable.

The average prices for Beech and Birch have been increasing in 2009 due to a shift towards logs of larger diameter which contributes to a higher average selling price.

We sell logs of over 20 cm in diameter, primarily 2 m and 4 m in length. During the Track Record Period, our Sichuan Chinese fir log prices are generally lower than market prices for Sichuan Chinese fir logs. We sold logs in a range of diameters rather than focusing on a particular size, and the costs of transportation were not included in our prices as our customers are responsible for picking up our logs and transporting them to their ultimate destination.

(2) Change in fair value of plantation assets less costs to sell

A major contributor to our profit for the years during the Track Record Period has been changes in fair value of plantation assets less costs to sell. This is because we have been actively acquiring new forests during the Track Record Period. For the 2006, 2007 and 2008 financial years, changes in fair value of plantation assets upon initial acquisition of plantation assets alone were responsible for 59.7%, 76.1% and 112.8% of our profit for the year, respectively, and for the six months ended 30 June 2008 and 2009, changes in fair value of plantation assets upon initial acquisition of plantation assets alone accounted for 95.0% and none of our profit for the period, respectively. Because this factor has been a significant contributor to our profit during the Track Record Period, our results of operations may experience dramatic increases or decreases due to these changes as a result of our acquisition activities.

IAS 41 on accounting for biological assets requires us to account for our forestry assets based on the fair value of our plantation forests less costs to sell. As there is no active market for our forests, fair value is determined based on a net present value approach whereby projected future net cash flows, based on an assessment of current timber prices, are discounted at certain discount rates for plantation assets for each of the years and the six month period applied to pre-tax cash flows, to provide a current market value of the plantation assets. The aggregate gain or loss arising from the initial recognition of our forests and from the change in the fair value of our forests, less costs to sell, is recognised in our consolidated income statement as profit or loss. Any such profit or loss reflects only unrealised gain or loss on our plantation assets as at the relevant balance sheet date and does not generate actual cash inflow or outflow unless such plantation assets are disposed of at such revalued amounts.

We engaged CFK, an independent forestry asset valuer, to determine the fair value of our forests less costs to sell as at 31 December 2006, 2007 and 2008 and 30 June 2009. CFK has prepared forest valuations for publicly listed companies such as Samling Global Limited listed on the Hong Kong Stock Exchange (Stock Code: 3938) and investment firms. CFK has three offices centred in New Zealand and a subsidiary firm, MBAC Consulting Group Pty. Ltd., in Australia with offices in Melbourne and Tugun. Mr. Geoff Manners of CFK is principally in charge of preparing the valuation of the plantation assets of the Company. He is a professional forester with a Bachelor of Forestry Science degree from the University of Canterbury. He is also a graduate of The University of Hawaii Advanced Management Program. He was assisted by Mr. Harold Corbett who holds a Bachelor of Forestry Science (Hons) degree from the University of Canterbury and Mr. John Keating who holds a Bachelor of Science in Forestry degree from the University of Queensland and a Master of Business Administration degree from Macquarie University. All three of them are principals of CFK. We approached CFK to undertake the IAS 41 valuations and received from us payment for the work performed. The payment was not conditional on our approval of the forest value.

CFK carried out the valuation of our forest assets in accordance with the IAS 41 standards. As advised by CFK, the methodology used in its valuation is consistent with the methodology used by certain European public forestry companies to value their forest assets, as well as the New Zealand Institute of Forestry IAS 41 valuation standards and the Australian Institute of Foresters standards for conducting IAS 41 compliant forest valuations. CFK further advised that these organisations provide some of the only independent guidelines for undertaking IAS 41 valuations of forestry assets. As an IAS 41-compliant valuation only refers to the existing tree crop (and excludes the costs and returns from new planting), the database containing information on the trees such as number of trees harvested and remaining volume of the forest that can be harvested provides a basis for the valuation. The volume per hectare is estimated from the survey of the PRC government (which, according to CFK, was carried out by the PRC government once every five years with the latest survey carried out nationally between 1999 to 2003). The government survey results were provided in the form of a single line summary by species where appropriate for each forest area. Said summary contained species, age, area in mu, average diameter, average height, the number of trees, and total volume/forest. This information was used by CFK to calculate the average volume/hectare for each forest, that is, dividing the total volume of each forest by its area in hectares. CFK arrived at the forests stock volume of each of our forest as set out in the section headed "Business — Our Forestry Assets" of this document by starting with the survey figures in m^3/hectare and then subtracting the subsequent harvest volume and allowing for some growth. As advised by CFK, the use of forest surveys issued by the government to provide base resource description is the standard operating procedure for forest managers around the world.

CFK was able to determine the physical resource (volume, area, number of harvests) for each forest at the valuation date by working from the original description at date of purchase adjusted to compensate for harvesting activity since that date. This was made easier given the relatively low harvest intensity in our forests. Our harvest records were also consistent with the resource description (volume/stocking) which provide further collaborative evidence supporting the survey information. From CFK's inspection, the forests appeared to be in good health with no significant disease or health problems. The physical health of the forest is determined using a visual inspection of the forest, noting the incidence (or absence) of insect or fungal attack of the tree leaves and needles. The presence of significant areas of tree dieback or storm damaged trees would be taken into account by reducing the area of the forest. However, CFK found that our forests showed no signs of having any significant levels of biological infection, or storm damage.

For its valuation work, CFK visited our forests in Sichuan and Yunnan on various occasions in 2008 and in March and August 2009, including visits to a sample of our forests, our customers, and the local state forest administration office to discuss the area measurements and forest inventory. CFK did not undertake an aerial inspection of the forest, as the use of a helicopter or a light aircraft to inspect our forest from the airspace was not permitted by the Chinese authority. This will not have an impact on CFK's valuation, but will increase the reliance placed upon the area and to a lesser degree, the volume estimates provided by the PRC government. CFK has confirmed that save for the qualifications as set out in its independent technical report (which are set out in the introductory section of the report at pages V-1 to V-3 of Appendix V to this document), it has not noted anything unusual or any matters which are inconsistent with our forest records during its field inspection.

Based upon CFK's 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 the forested areas, and that there are no large chemical-using industries located on the forest boundary or near to the forests themselves. We have also confirmed with our forest workers that they were not aware of any hazardous chemicals in our forests.

In valuing our forests using the net present value approach, a number of key assumptions are made by our independent valuer. These key assumptions include the discount rate, market prices for each grade of log produced, changes in production costs, natural tree growth, and the rate of harvesting and planting of trees at our forests, among others. Our costs to sell are determined by our independent valuer based on costs to sell incurred for similar sales. See "Critical Accounting Policies — Fair value of plantation assets less costs to sell" for further information.

CFK has undertaken a sensitivity analysis of the net present value of our Sichuan forests, Yunnan Luxi/Shuangjiang Forest, and Yunnan Wenshan Forest as at 31 December 2008 with different discount rates, and the results are as follows:

Net present value of our Sichuan forests' tree crop as at 31 December 2008

Discount rate	8%	8.5%	9%	9.5%	10%
Net present value (RMB in million)	1,164	1,138	1,113	1,089	1,065

Net present value of our Yunnan Luxi/Shuangjiang Forest's tree crop as at 31 December 2008

Discount rate	10%	10.5%	11%	11.5%	12%
Net present value (RMB in million)	4,714	4,587	4,466	4,350	4,238

Net present value of our Yunnan Wenshan Forest's tree crop as at 31 December 2008

Discount rate	12%	12.5%	13%	13.5%	14%
Net present value (RMB in million)	2,324	2,215	2,114	2,019	1,929

We derive the amount of changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets by taking the difference between the acquisition cost and the value of the acquired forest asset as at the date of acquisition (which was based on the valuation assessed by CFK upon each acquisition of forest).

We derive the amount of changes in fair value of plantation assets less costs to sell during the year by taking the sum of (i) the difference between the aggregate value of the existing forest assets as of the beginning and the end of the financial year; and (ii) the difference between the aggregate value of the new forest assets as of the second day of the acquisition and the end of the financial year. All such values were based on the valuations assessed by CFK as at the relevant time.

During the Track Record Period, we did not experience any biological changes in forestry assets in relation to their health conditions that resulted in diminution in fair value.

(3) Market demand and supply for wood and paper products

For the year ended 31 December 2008, wood processing factories contributed to 100% of our turnover. Wood processing factories turn our logs into products for construction and furniture making. For the six months ended 30 June 2009, wood processing factories contributed to 100% of our turnover. Our financial performance depends on the market demand and supply conditions for wood and paper. During the 2006, 2007 and 2008 financial years, we had a total of 10, 16, and 19 customers, respectively. During the 2008 and 2009 first halves, we had a total of 15 and 17 customers, respectively. China has been facing a shortage of wood for years and it imports a significant amount of wood to satisfy its domestic market demand. Like other places in China, there is a shortage of wood in Sichuan and Yunnan. Based on our experience, we believe that our customer demand will increase but the number of customers will decrease due to consolidation in the wood processing and paper industry. We anticipate that the PRC's reliance on imported logs will change and the PRC may be forced to rely more on domestic logs, creating favourable market demand for our logs. This is because the major importers of logs to the PRC, like Russia, will face higher export tariffs which cause the prices of their logs to become less competitive than those of domestic logs. 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 m³, 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:

	Six months ended 30 June 2009	Quarter ended 30 September 2009
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 (m³)	53,655	50,760

(4) Increased log production from newly acquired forests

As at 31 December 2007, we owned forest rights covering gross forest areas totalling approximately 12,453 hectares in Sichuan and Anhui. As at 31 December 2008, we owned forest rights covering gross forest areas totalling 171,780 hectares in Sichuan and Yunnan and we did not acquire additional forest areas during the six months ended 30 June 2009. We plan to increase our log production by new forest acquisitions, which will add substantially to our exploitable forest area, as well as by researching into more efficient means of harvesting, such as hiring professional harvesting teams with more sophisticated equipment in Yunnan. We believe that such enhancement of our harvesting capabilities will help us increase our log production in the coming years. However, the number of logs produced by us will depend on a variety of factors, including market demand and supply conditions, weather conditions affecting our forests and other factors that may be outside of our control.

(5) Reversal of fair value of plantation assets upon logging

Our results of operations can be significantly impacted by fluctuations in reversal of fair value of plantation assets upon logging, which represents the fair value of plantation assets, less costs to sell upon logging, and which are subsequently sold. This reversal is, in turn, impacted by the sale price of our logs and market demand and supply conditions for logs. When our timber is logged and sold, the fair value of such timber as at the harvest date is charged to our consolidated income statement. We determine the fair value of timber at harvest date by referencing the sale price of our logs less estimated cost of sales. The two values are closely linked because (a) payment for our logs is made before delivery and logs are usually picked up by our customers within 7 days from delivery day, so there is very short lag time between harvesting and customer pickup; and (b) the sale prices of our logs were relatively stable during the Track Record Period. Since we determine the fair value of timber at harvest date by referencing the sale price of our logs less estimated cost of sales, the factors that affect the fair value of timber as at harvest date are the same as the factors that affect the sale price of our logs, such as perceived market trends, market price levels, sales volume, required delivery schedules and our relationship with specific customers. See “Description of Selected Income Statement Items — Reversal upon logging of the plantation assets and operating expenses for logging activities” for more information.

(6) Operating expenses for logging activities

The main factors affecting our operating expenses for logging activities are:

- ***Cost of harvesting.*** Cost of harvesting is higher during peak seasons. Generally, we expect that labour costs will rise as the villagers become more experienced in the work required by us and increase their wage expectations. Although labour remains relatively inexpensive in rural areas, our cost of harvesting has experienced a steady upward trend. For the three financial years ended 2006, 2007 and 2008, and for the six months ended 30 June 2008 and 2009, these average costs in RMB per m^3 of harvested forest amounted to RMB153, RMB173, RMB231, RMB199 and RMB245, respectively. We only commenced harvesting in Yunnan in May 2008, and during the 2008 financial year, our cost of harvesting in Yunnan and Sichuan was, on average, RMB252 per m^3 and RMB191 per m^3 respectively.

- ***Costs associated with applying for logging permits.*** When we apply for logging permits, we are required to pay Forest Maintenance Fees. The Forest Maintenance Fees we paid to the local Sichuan government for the 2006, 2007 and 2008 financial years were RMB54 per m^3, RMB55 per m^3 and RMB55 per m^3, respectively, and for the 2008 financial year were RMB45 per m^3 in Yunnan and for the 2009 first half were RMB55 per m^3 in Sichuan and RMB45 per m^3 in Yunnan. These fees depend on the forest area proposed for logging: the greater the forest area, the higher the fees. These fees are also subject to periodic revisions by the local and State forest authorities and we anticipate these to become more expensive in the future due to the development of the forestry sector. These fees are determined by the local forestry bureaus and may vary by geographic location.

During the Track Record Period, we did not experience any material changes in our harvesting rate that would be sufficient to have a material impact on our financial results. We perform a selective harvest regime, namely, our harvesting is performed selectively in one parcel of forest rather than clear cut harvesting over an extensive area. Furthermore, we only harvest those trees which have met our harvesting standards, which have a stem diameter greater than 20 cm and a stem length not less than 15 m; and are aged at least 20 years. Our harvesting rate will change with our harvesting method and harvesting standards. Currently we do not expect any material change in our harvesting rate.

(7) Tax incentives

We currently do not pay any income tax in the PRC due to the fact that we derive our income from the forestry sector. We are not impacted by the new enterprise income tax laws in the PRC because the business of planting forest trees is one of the categories of businesses encouraged by the Chinese government. Under the Implementation Regulations of PRC EIT Law, the cultivation of forest trees and the gathering of forest products are exempt from enterprise income tax in China.

Previously, Beijing Zhaolin paid a preferential 4% VAT rate in the PRC as opposed to a standard rate of up to 17%. The VAT rate of 4% enjoyed by Beijing Zhaolin was decided by the corresponding local tax authorities and evidenced by the written tax statement issued by the local tax authorities dated 14 January 2008 and 15 January 2008. The validity of this tax treatment has been confirmed by the relevant local tax bureau as part of the dissolution procedures of Beijing Zhaolin, which was dissolved and deregistered on 4 September 2008. Our PRC legal advisers have advised that upon dissolution of Beijing Zhaolin, although it is possible that the shareholder of Beijing Zhaolin may be required to assume legal liabilities within the limit of the distribution he obtains from the dissolution, such liabilities will not be assumed by the Group or any of its subsidiaries.

Our PRC legal advisers have advised that Kunming Ultra Big should be subject to a 13% VAT rate. However, Kunming Ultra Big has been verbally advised by the local tax authority that it is only required to pay the VAT at 6% before 1 January 2009 and at 3% on and after 1 January 2009 and therefore it has been paying at such rates since 1 April 2008, the date when it commenced selling logs in its own name. Our PRC legal advisers have advised that the tax authorities having jurisdiction over Kunming Ultra Big may, despite the aforementioned verbal advice given by the local tax authority, determine that the reduced VAT rate we have been paying is invalid and require us to pay back taxes owed to the applicable tax authorities based on a VAT rate of 13% within a prescribed period of time. Our Directors consider that we should make a provision for the difference of 7% (before 1 January 2009) and 10% (on and after 1 January 2009) in our accounts for prudence's sake, and accordingly such provision has been included in our consolidated financial statements for the year ended 31 December 2008 and the six months ended 30 June 2009. Should any of the PRC tax incentives which we expect to benefit from become unavailable, removed or revised by the PRC tax authorities, our results of operations may be materially and adversely affected. Without any tax benefits or preferential tax treatments, our PRC subsidiaries, namely Kunming Ultra Big and Chengdu Yishang, could be subject to income tax at a 25% rate and a VAT up to 17%.

Our Cayman Islands and BVI entities do not pay income tax in these jurisdictions. We also did not attract Hong Kong income tax during the Track Record Period. Any change in our tax-exempt status in the jurisdictions in which we operate will have a material impact on our operations.

The Directors confirm that the Group has made all the required tax filings within the stipulated time limit under the relevant tax laws and regulations and have paid all outstanding tax liabilities with the relevant tax authorities in the respective jurisdictions, and the Group is not subject to any dispute or potential dispute with the tax authorities.

(8) Cost of new forest acquisitions

Acquiring new forests is an integral part of our business growth strategy. The below table sets forth our new forest acquisition costs (excluding land use rights), calculated in RMB per hectare, for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
New forest acquisition cost (RMB per hectare)	10,853	11,913	4,487	5,187	—

Our new forest acquisition cost rose during the 2006 and 2007 financial years because sellers asked for higher prices as competition in the forestry industry increased. However, our new forest acquisition cost decreased for the 2008 financial year because we acquired the Yunnan Luxi/Shuangjiang Forest in March 2008 and the Yunnan Wenshan Forest in July 2008 at lower costs per hectare, benefiting from certain economies of scale for such a large acquisition. Also, to our best knowledge, the forestry industry was generally privatised earlier in Sichuan compared to Yunnan, so acquisition costs in Sichuan remain higher than Yunnan due to higher competition. Like our Sichuan acquisitions, we offered the sellers of the Yunnan forests employment with our Group as forest workers. This benefit helped us negotiate a competitive purchase price in Yunnan. We did not acquire any forests in the first half of 2009. Although we may be able to obtain forests at a competitive rate, in the future, in general we expect to face increased new forest acquisition costs due to the continued development of this industry in Sichuan and Yunnan.

(9) Weather conditions at our forest areas

The amount of logs we are able to extract in any given period is dependent on, among other things, the prevailing weather conditions at our forest areas during that period. In particular, in order for villagers to log timber for us from our Sichuan forests and move them down steep slopes, dry conditions are required for safety and efficiency reasons. We generally stop logging between July and September of each year in our Sichuan forests during the rainy season to protect the villagers and increase harvesting in the preceding months in anticipation thereof. Snowfall affects our logging as a portion of our trees are located in mountainous areas. If there is an unusually cold or snowy winter, a larger portion of our timber would be covered with snow and thus difficult to harvest.

During the Track Record Period, we did not experience any abnormal weather conditions that caused a material impact on our operations. During the Track Record Period, the only material impact from the weather on our sales in Sichuan was the rainy season from July to September. For safety concern, we will harvest more timber in advance during May and June in order to meet the customers' order during the raining season. Accordingly, the rainy season of Sichuan will not have any material impact on our sales. We only began logging in Yunnan in May 2008 during the Track Record Period, and there was no discernible impact on our sales that can be linked to weather patterns in Yunnan, although we note that the Yunnan rainy season is from May to October. However, due to the relative sophistication of the professional harvesting teams and their equipment that we use in Yunnan compared to Sichuan, where villagers are used to harvest timber, we expect that the professionals will continue to log during the rainy season in Yunnan. While we plan our logging operations to minimise our exposure to the usual rainy or snow seasons affecting our forest areas, we are exposed to weather risks and abnormally prolonged periods of rainfall or snowfall will adversely impact the volume of logs we are able to extract.

CRITICAL ACCOUNTING POLICIES

The preparation of our financial information requires our management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expenses, and related disclosures of contingent assets and liabilities. Critical accounting policies are the accounting policies that are the most important to the portrayal and understanding of our financial condition and/or results of operations and require the most difficult, subjective or complex judgments of our management, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments.

For "fair value of plantation assets", as it is valued by an independent valuer and there is no "realised" or "unrealised" value, there would not be any discrepancy for its estimate or assumption made in the past. Furthermore, as this item at each balance sheet date during the Track Record Period was prepared by the same forestry valuer, namely CFK, and we intend to retain CFK to perform such valuation in the future, the same valuation method has been used to calculate this item during the Track Record Period and this item, once prepared, is unlikely to change in the future. Changes in "fair value of plantation assets" will occur as a result of removals due to harvest, growth and movements in prices and costs. Less frequently the discount rate used could change (and so change the fair value of plantation assets) in response to changes in the economic return required from forestry investments. By using the same valuer, there will not be changes in value attributed to changes in methodology.

For other critical accounting estimates or assumptions, (1) no material discrepancy is noted for the estimate or assumption made in the past; (2) no change is made for such estimates or assumptions; and (3) there is a chance that the estimate or assumption will be changed in future. However, the likelihood of change cannot be estimated.

The financial information set out in the Accountants' Report has been prepared in accordance with IFRS. Our principal accounting policies are set out in Note 2 of Section B of the Accountants' Report, under "Significant Accounting Policies". IFRS requires that we adopt the accounting policies and make the estimates that our Directors believe are prudent and reasonable in the circumstances for the purposes of giving a true and fair view of our results and financial condition. However, different policies, estimates and assumptions in critical areas could lead to materially different results. We have identified below the accounting policies that we believe are the most critical to our consolidated financial statements and that involve the most significant estimates and judgments.

A. Fair value of plantation assets less costs to sell

IAS 41 on accounting for biological assets requires us to account for our forests based on the fair value of our plantation assets less costs to sell as of each balance sheet date. At each balance sheet date, our plantation assets are valued at fair value less costs to sell. Our costs to sell are determined by our independent valuer based on costs to sell incurred for similar sales.

Fair value represents the amount for which such assets could be exchanged between knowledgeable, willing parties in an arm's length transaction. Costs to sell include all costs that would be necessary to sell the logs, excluding costs necessary to get the logs to market. Costs to sell, in our case, refer only to costs of harvesting and Forest Maintenance Fees. Our plantation assets during the Track Record Period comprised standing timber in our forests primarily in Sichuan and Yunnan and does not include the land value of the forests.

We engaged CFK, an independent forestry valuer, to determine the fair value of plantation assets. CFK used the information from our Group to create a description of the species, area, age and volume at each valuation date. CFK also had access to log prices and costs that applied at each of the valuation dates. CFK also undertook a Capital Asset Pricing Model ("CAPM") analysis using information applicable to the date of valuation. This allowed CFK to create a valuation model of net present value based on the forest description as at the valuation date, and using price and cost inputs that were applicable to the valuation date. CFK assessed the forest health as part of its visit to the forests on various occasions in 2008 and in March 2009. As there was no evidence of significant historical mortality, it used information of post valuation date to assess tree health in prior years. CFK did not use information on future log prices or costs when calculating the retrospective valuations. [For example, when calculating the value as at December 2006, actual log price or production cost information for 2007 and 2008 was not used.]

The fair value of our forest assets is derived from many assumptions. This is because where an active market exists for a particular forest, such forest is valued using quoted market prices. As there is no active market for our forests, fair value is determined based on a net present value approach whereby projected future net cash flows, based on an assessment of current timber log prices, were discounted at certain discount rates for plantation assets for each of the years applied to pre-tax cash flows, to provide a current market value of the plantation assets.

Risk profile analysis for discount rate

CFK has applied a pre-tax discount rate of 9% to our Sichuan forests, 11% to our Yunnan Luxi/Shuangjiang Forest and 13% to our Yunnan Wenshan Forest. CFK considers these discount rates are appropriate based on its analysis of the risk profiles of our Sichuan, Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest in respect of yield risk, production costs risk, infrastructure risk, financial risk, environmental risk and fire risk. For this purpose of its analysis, CFK has undertaken a comparison of the risk profiles of our Sichuan forests, Yunnan Luxi/Shuangjiang Forest, and Yunnan Wenshan Forest with the other forests that have recently changed hands (See Table 1 below).

Table 1: Comparative Risks

		Forest Estate					
Risk Factor	Weighting	South Hemisphere(3)	North Hemisphere(4)	PRC(5)	The Group's Sichuan forest	The Group's Yunnan Luxi/ Shuangjiang Forest	The Group's Yunnan Wenshan Forest
Yield	3	1-3	1-3	3-5	4	5	5
Production costs	2	2-3	2-3	1	1	1	1
Infrastructure(1)	2	1-2	1-2	3-5	3	4	5
Financial(2)	2	2-3	1-3	1-3	2	2	3
Environmental	1	1-3	1-2	3-5	4	4	4
Fire	1	1-5	1-4	3-5	3	3	4
Total Score(6)		**18-27**	**15-24**	**29-41**	**31**	**36**	**41**

Notes:

(1) Scale of market for logs, availability of labour.

(2) Response (percentage change) of stumpage (which is sales price less costs of production) to changes in log prices and/or production costs.

(3) The data was based on CFK's database which consists of 15 transactions in the Southern Hemisphere (13 in New Zealand, 1 in Australia and 1 in Chile) in 2002-2006. There were no recorded open market sales in 2007/2008.

(4) The data was based on CFK's database which consists of 11 transactions in the Northern Hemisphere (all in southern US) in 2006-2008.

(5) The data was based on CFK's knowledge of PRC forests, and does not relate to specific transactions.

(6) Total Score: where ranges are used, the range in the total scores are the sum of the low end and high end of each individual factor because no forest will achieve a perfect score on all parameters. Instead, such total score indicates a range for a forest consisting of all such risk factors.

Source: CFK

Assessment of risk is generally based upon the judgement of the forest valuer, and is undertaken after all the quantifiable risk is accounted for when developing the valuation inputs. In the case of our forests, CFK considers that the information is sufficient to undertake a valuation but as stated in its independent technical report as set out in Appendix V to this document, there is some uncertainty particularly surrounding the yields. This uncertainty is not confined to our forests but is something that is encountered routinely in valuation and due diligence work. In CFK's view, our forest description (yields) is less comprehensive than that found, for instance, in a New Zealand plantation forest of similar size, but is more comprehensive than a number of forest plantations established in Malaysia, or forest concession in a number of tropical countries in Asia, South America and Africa.

For each forest, the risk factors have been subjectively allocated a score of "1" to "5" (with "1" signifying low risk and "5" signifying high risk in comparison with the other forest). These scores are then multiplied by the weighting shown to derive the relative comparative risks for each factor which are then summed to derive a total comparable risk score. The weightings have been derived based upon CFK's valuation experience which indicates that, after price and discount rate, the most significant factor in the valuation is yield risk, followed by production costs risk. Accordingly CFK has given the yield risk the most weight with "3", followed by the production costs risk and the financial risk.

Yield Risk

In undertaking a valuation, the current and future yields are usually the most significant factor after the discount rate and price. For this reason, CFK has given this factor the highest weighting when considering the risk profile of a forest estate. CFK determined the yields in our Sichuan forests based upon forest survey data undertaken by the Chinese government, which is consistent with the surveys undertaken by us. In Sichuan, our harvest volumes are consistent with the survey information. There is additional survey information undertaken by us at the time of acquisition and during the early part of 2008 as part of its routine monitoring program. In Yunnan, the Chinese government surveys can be benchmarked against our acquisition surveys. However, there has not been sufficient time for CFK to use actual harvest information or our routine survey information to provide additional support for the government survey yields. There is less available information regarding the rate of forest growth. A level of uncertainty remains as the surveys have not been able to be audited. Growth information has been derived from generally available information rather than developed from measurements conducted of our forests by ourselves. This is not unusual, but is different to the situation found in both the Northern Hemisphere and Southern Hemisphere forests where growth projections are based on a long history of measurements and research calibrated to individual regions and forests. In the context of the valuation, CFK considers that these differences place our Sichuan forests, Yunnan Luxi/Shuangjiang Forest, and Yunnan Wenshan Forest at a higher yield risk than the Northern Hemisphere and Southern Hemisphere forests.

In summary,

- the Sichuan forests have a higher yield risk when compared to the transactional evidence. The extent of this risk is mitigated to a degree by the additional information available from harvesting and the recent survey. Growth information does not have the same level of research and analysis as that available for forests in the transactional database; and
- Yunnan Luxi/Shuangjiang Forest, due to its lack of additional harvest information as well as the presence of naturally regenerated forest including beech, faces a higher degree of risk than the essentially single species forests in Sichuan.
- Yunnan Wenshan Forest, due to its lack of harvest information and highly aggregated yield information means that Wenshan has a similar yield risk to Yunnan Luxi/Shuangjiang.

Production costs risk

The production costs in Sichuan and Yunnan compare favourably to costs in the transactional database (Table 2 below). This table shows the production costs relative to the transactional database.

Table 2: Relative production and delivery costs

Estate	Relative Direct Production and Delivery Costs[4]
South Hemisphere[1]	1.0-1.2
North Hemisphere[2]	0.9-1.0
PRC[3]	0.7-0.9
The Group's Sichuan forest	0.8
The Group's Yunnan Luxi/Shuangjiang Forest	0.9
The Group's Yunnan Wenshan Forest	0.9

Notes:

(1) The data was based on CFK's database, which consists of 15 transactions in the Southern Hemisphere (13 in New Zealand, 1 in Australia and 1 in Chile) in 2002-2006. There were no recorded open market sales in 2007/2008

(2) The data was based on CFK's database, which consists of 11 transactions in the Northern Hemisphere (all in southern US) in 2006-2008

(3) The data was based on CFK's knowledge of PRC forests, and does not relate to specific transactions.

(4) This is a subjective assessment by CFK (based upon its understanding of the cost structure) as to where the costs lie relative to the transactional database. "1.0" is the same as the average of the database. Figures higher or lower than "1.0" are above or below (as the case may be) the average of the database.

Source: CFK

Infrastructure risk

The Sichuan region has a diverse range of domestic mills (including sawmills and plywood mills) and MDF facilities. Sichuan is also a long way from import ports and therefore alternative imported log sources will incur a freight cost. The road network in Sichuan, although adequate and providing good access, is of a lower standard than one would find in the Northern Hemisphere or the Southern Hemisphere. The processing facilities in Sichuan are also generally smaller (MDF aside) and less technologically advanced than those found elsewhere. The Yunnan region is less well developed than Sichuan but still has a range of small domestic mills, without the range of residue using facilities (e.g. MDF) that are present in Sichuan and has a freight advantage over alternative imported log supplies. The road network in Yunnan, although providing access, is in general, not well developed as that in Sichuan.

The Northern Hemisphere has a well developed log market with a large number of large scale sawmills, plywood mills, pulp and paper plants, MDF and oriented strand board ("OSB") facilities. This integrated market is regarded as one of the largest markets in the world and the United States is one of the largest timber importers in the world. The Southern Hemisphere markets are not as deep or as well developed as those in the Northern Hemisphere but they have the advantage of in the case of Australia and New Zealand, a long history of log exports which provide a viable alternative to the domestic log market. In the case of South America a growing internal demand for forest products together with a large scale cost competitive manufacturing base provide a good market for forest products. The transport infrastructure in both the US and Australasia is well developed and generally provides all year round access to the forests and markets. The South American road infrastructure is less well developed but is generally less congested than the roads in China providing good all weather access to the forests and processing facilities.

In summary:

- The log markets in China are less well developed and consist of larger numbers of smaller facilities than those in the Northern Hemisphere or the Southern Hemisphere. The road network in China is also under more pressure than the roads in the latter regions due to traffic volumes increasing faster than the rate at which the road network can be upgraded. For this reason, the forests in the PRC and in Sichuan and Yunnan have a higher infrastructure risk than those in the Northern Hemisphere or the Southern Hemisphere.

- Yunnan is assessed as having a higher risk than Sichuan as a result of its less well developed log market while the other factors are similar.

Financial Risk

Our Sichuan and Yunnan forests generally produce a comparatively high margin which moderates the impacts of movements in costs or log prices. As a low-cost producer, stumpage (which is sales price less costs of production) is more robust than from some of the forests represented in the transactional evidence.

Environmental risk

The environmental risk represents the risk to the forests from biological events such as wind, snow, disease and insects. All forests have some environmental risk. In the case of snow and wood damage, the affected trees can often be salvaged with minimal or no loss in value. However, this requires sufficient production capacity to harvest and process the additional log volume. In this regard, both the Northern Hemisphere and the Southern Hemisphere regions are more able to increase production capacity than the PRC. These regions are also able to demonstrate a track record of having done so. The forest industries in both the Northern Hemisphere and the Southern Hemisphere have undertaken research into forest pests and diseases, and have a systematic industry-wide approach to forest health with quarantine procedures that can be quickly put in place, should the occasion demands it. The same situation is not present in the PRC.

CFK does not consider that our forests have a significantly greater environmental risk profile than PRC forests generally. The key risk factor is the ability to respond to storm damage and the incidence of any pest or disease in the forests. Some of the fast growing hardwood plantations will have a slightly lower risk profile due to the higher intensity of forest management. CFK considers that the risk profile of the PRC forests is higher than that for the forests in the CFK's transactional database.

Fire risk

Our Sichuan and Yunnan forests do not show any evidence of fire damage. Fire is a significant risk in both South American and some US forests. Owing to generally year-round rainfall, the fire risk in New Zealand forests is comparatively low, compared with other forest regions in the world. CFK considers that the fire risk in China falls somewhere between these two extremes. The factors contributing to China's fire risk are the pronounced wet and dry seasons, and the proximity of people to the forests with villages in and around the forest areas. Both the US and Australasia have well developed fire detection and response systems. The same systems are not present in PRC or South America.

It is principally the absence of a well developed fire detection and suppression organisation that leads to the fire risk rating shown in Table 1 above. Sichuan, with a more fragmented estate, could be regarded as having a slightly lower risk than Yunnan. However, in this context, it is not considered significant by CFK.

Conclusion

In conclusion, CFK takes the view that;

- Sichuan Yield risk is positive relative to the transactional evidence;
- The Yunnan forests have less yield information than Sichuan and so the yields have a higher degree of uncertainty and therefore risk to the accuracy of the future yields;
- Sichuan and Yunnan's costs of production are competitive with those forests in the CFK's database, and in absolute terms, they are lower. However, this is not considered material in reference to the respective markets;
- Infrastructure risk is positive due to the relatively undeveloped nature of the forest processing industry and the congestion of the road network;
- The forests have a high stumpage margin and are in line with forests in the transactional evidence;
- Environmental risk is judged to be positive, due to the lack or readiness to the occurrence of a specific event; and
- Fire risk is moderately high but similar to the transactional evidence.

Based upon the above analysis, CFK has concluded that a 9% pre-tax discount rate is appropriate for our Sichuan forests, as it represents an increase on the upper range of discount rates observed from the transactional evidence, reflecting a risk rating of "31" which is outside the upper bound of "27" of the transactional evidence of South Hemisphere and North Hemisphere. Our Yunnan Luxi/Shuangjiang Forest have been assessed as having a risk rating of "36" relative to the risk rating of "31" for our Sichuan forests, accordingly CFK believes that a pre-tax discount rate of 11% is appropriate for these forests. With respect to our Yunnan Wenshan Forest, CFK concludes that a 13% pre-tax discount rate is appropriate and has assigned a risk rating of "39" relative to the risk rating of "31" for our Sichuan Forest and "36" for our Yunnan Luxi/Shuangjiang Forest. The Yunnan Wenshan Forest has the highest pre-tax discount rate compared to the Sichuan forests and the Yunnan Luxi Shuangjiang Forest in light of its highly aggregated yield information, the need for a longer time for us to set up a distribution network in this forest before we can commence operations for to generate revenues, and the anticipated lower log prices of the logs to be harvested from the Yunnan Wenshan Forest due to the various tree species planted therein compared to the other forests. As disclosed in the Independent Technical Report in the paragraph headed "Choice of Discount

Rate — Yunnan (Wenshan)" in Appendix V to this document, our Yunnan Wenshan Forest are planted on highly variable soil types. This together with unavailability of detailed yield information means that an average yield estimate has to be applied to relatively large aggregated forest areas each of which in turn is made up of a number of smaller forest areas of varying quality and this unavailability of detailed yield information affects the forests' risk profile, resulting in a higher discount rate for the Yunnan Wenshan forest.

Impact of global financial crisis on discount rates

With the consistent application of valuation methodology disclosed in "Appendix V — Independent Technical Report", CFK decided that the discount rates adopted in valuing the Group's forestry assets should remain unchanged after considering the following factors:

Transactional evidence

During the Asian financial crisis in 1997 and 1998, the economic situation of which was similar to the recent global financial crisis, the average IDR for major forest transactions in 1998 was approximately 10.3% which was higher than the average IDR of approximately 9.3% for transactions in 1996 (that is, prior to the Asian financial crisis).

CFK has reviewed major forest transactions occurred from late 2007 to the first quarter of 2009 and noted that no major forest transaction occurred in the Southern hemisphere during such period. For transactions which occurred in the Northern hemisphere during such period, the average implied discount rates ("IDR") has remained relatively stable during such period and was not affected by the global financial crisis which occurred in September 2008:

IDR (%)	2007	Jan to Aug 2008	Sep to Dec 2008	1H 2009
Southern	*N/A*	*N/A*	*N/A*	*N/A*
Northern	*5.5%*	*5.3%*	*5.3%*	*5.4%*

Source: CFK

CAPM analysis

The financial situation has influenced the risk free rate as represented by the 9-year Chinese government bond and the outlook for inflation. The 9-year Chinese government bond rate during October 2008 was 3.31%. The long-term inflation has been set at 3.3%, based upon the medium term inflation outlook for China being 3.3% as released by Consensus Forecast (a United kingdom-based agency that provides consensus forecasts (mean) of key economic parameters provided by a number of economic forecasters) in October 2008. Updating the CAPM analysis using these two key inputs results in a CAPM-derived discount range similar to that calculated in January 2008. This analysis does not indicate that a change in discount rate is warranted. Based upon changing the risk free rate and inflation rates but leaving other inputs the same, CFK estimates the real, pre-tax, cost of capital for a forest owner at between 4.4% and 6.7%. This is similar to the range calculated in early 2008.

Though a change in discount rates adopted for valuation is considered not warranted, the Group's forests were affected by the financial crisis in the last quarter of 2008 primarily through the drop in log prices, which was in turn due to a decrease in demand for logs in the last quarter of 2008. Such drop in log prices has been reflected in the consolidated income statement of the Group via the fair value loss during the second half of 2008.

CFK has confirmed that despite the financial crisis in the last quarter of 2008, the methodology for valuing the Group's plantation assets was consistent with that applied during the Track Record Period and it has not changed any key assumptions used prior to the 2008 financial crisis solely as a result of such global financial crisis in 2008.

Other assumptions

Other than the key parameters such as the species, area, age and volume of the Group's forests, the key assumptions made by CFK, in valuing our forests using the net present value approach, include, among other things, the discount rate, market prices for each grade of log produced, production costs, natural tree growth, and the harvesting rate at our forests, and other assumptions as set forth below:

- For the 2006, 2007, 2008 financial years, and for the 2008 and 2009 first halves, the discount rate applied by CFK as at each balance sheet date is 9% with respect to our Sichuan forests, 11% with respect to our Yunnan Luxi/Shuangjiang Forest, and 13% with respect to our Yunnan Wenshan Forest. CFK selected these rates based on a "willing buyer, willing seller" with no compulsion to act, and is applied in the context of the value of our estate as a whole. CFK considered a number of factors and believes the applied discount rate would reflect an "open market sale" (An open market sale is defined as *"the amount, exclusive of value-added tax, for which the plantation tree crop would be expected to exchange between a willing buyer and a willing seller in an arms length transaction, after proper marketing, wherein the parties had each acted knowledgeably and without compulsion*".). CFK's initial analysis of our Sichuan forests and our Yunnan Luxi/Shuangjiang Forest indicates that the discount range should lie in the range of 4.5% to 7.0%. According to CFK, a discount rate should lie between 5.3% and 8.35% based on their analysis of actual Southern Hemisphere sales. After considering the risk profile of our forests, and their location and forest description, CFK determined that our forest risk is positive due to their review of transactional evidence, indicating a discount rate exceeding the upper end of the range.

- Future cash flows are calculated from the current rotation of trees only, without taking into account the revenues or costs from re-establishment following harvest, or of land not yet planted (For this reason they do not represent the future cash flows that the Group or any other owner will incur.);

- Future cash flows do not take into account income taxation and finance costs, and are calculated on real terms;

- The impact of planned future business activity that may impact the future prices of logs harvested from our forests are not considered;

- Costs are current average costs and are held constant in real terms (after inflation). No allowance is made for cost improvements in future operations or changes in price above or below the rate of inflation; and

- Prices are current log prices and are held constant in real terms (after inflation). No allowance is made for price changes either above or below the rate of inflation.

Changes in fair value of plantation assets less costs to sell are divided into two captions on our consolidated income statement for greater clarity. Firstly, we calculate changes upon initial acquisition of plantation assets, which is derived from the difference between the acquisition cost and the value of the acquired forest asset as at the date of acquisition. Such changes will only appear in our consolidated income statements for financial years during which we acquired new forests. Secondly, we calculate changes for biological growth during the year, which is derived from the aggregate of (i) the difference between the value of the existing forest assets as of the beginning and the end of the financial year and (ii) the difference between the value of the new forest asset as at the second day of the acquisition and the value as of the end of the financial year. This value reflects the timber value and captures declines in values due to harvesting, increases in value due to tree growth during the year, and changes in the market prices for our logs for that year. These changes are reflected in our consolidated income statements every year.

As at 31 December 2008, our Sichuan forests, Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest were valued at approximately RMB1,113 million, RMB4,466 million and 2,114 million, respectively, by CFK in accordance with IAS 41. CFK has undertaken sensitivity analysis on the forest value as at 31 December 2008. In the case of Sichuan, a 10% change in the volume has the same impact as a 10% change in the price received for logs, that is RMB200 million. In the case of the Yunnan forest, the price received for birch logs has the most impact on value - a 10% change in birch price has a RMB1,073 million impact on the value. A 10% change in the birch volume has a RMB536 million impact on value. Of five most significant inputs (based upon their impact on value) into the valuation, log price is the most significant one, followed by the volume of birch and beech, direct harvesting costs, annual management cost, and harvesting indirect cost (including general administration costs, and harvesting and sales costs).

Changes in the discount rates applied by our independent valuer 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 our independent valuer to our Sichuan forests, the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest respectively, for the 2008 financial year:

	0.5% decrease	Base case	0.5% increase
Sichuan			
Discount rate	8.5%	9.0%	9.5%
Gain/ (loss) from changes in fair value (RMB)	(85,277,442)	(110,277,442)	(134,277,442)
Yunnan Luxi			
Discount rate	10.5%	11.0%	11.5%
Gain/ (loss) from changes in fair value (RMB)	4,570,917,681	4,449,917,681	4,333,917,681
Yunnan Wenshan			
Discount rate	12.5%	13.0%	13.5%
Gain/ (loss) from changes in fair value (RMB)	1,785,723,960	1,684,723,960	1,589,723,960
All forest			
Gain/ (loss) from changes in fair value (RMB)	6,271,364,199	6,024,364,199	5,789,364,199

Changes in assumed log prices can also result in significant fluctuations in 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 for the 2008 financial year assuming a 5.0% increase or decrease in the assumed log prices (excluding VAT) as at 31 December 2008 applicable to each of our Sichuan forests, Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest as indicated below.

	5.0% decrease	Base case	5.0% increase
Sichuan			
Assumed log price (RMB/m³)	906	954	1,002
Gain/ (loss) from changes in fair value (RMB)	(195,277,442)	(110,277,442)	(25,277,442)
Yunnan Luxi			
Assumed log price (RMB/m³)			
— Birch	1,229	1,294	1,359
— Beech	1,160	1,221	1,282
— Yunnan Pine	891	938	985
— Chinese Fir	891	938	985
Gain/ (loss) from changes in fair value (RMB)	4,114,917,681	4,449,917,681	4,784,917,681
Yunnan Wenshan			
Assumed log price (RMB/m³)	912	960	1,008
Gain/ (loss) from changes in fair value (RMB)	1,464,723,960	1,684,723,960	1,903,723,960
All forest			
Gain/ (loss) from changes in fair value (RMB)	5,384,364,199	6,024,364,199	6,663,364,199

FINANCIAL INFORMATION

Changes in our assumed operation costs can also result in significant fluctuations in 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 for the 2008 financial year assuming a 5.0% increase or decrease in our assumed direct harvesting costs, harvesting and sales costs and general administration costs applicable to each of our Sichuan forests, Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest as indicated below.

	5.0% Decrease	Base Case	5.0% Increase
Sichuan forest			
Direct harvesting costs (RMB/m^3)	204	215	226
Harvesting and sales costs (RMB/m^3)	60	63	66
General administration costs (RMB/hectare)	950	1,000	1,050
Gain/(Loss) from changes in fair value (RMB)	(85,277,442)	(110,277,442)	(135,277,442)
Yunnan Luxi/Shuangjiang Forest			
Direct harvesting costs (RMB/m^3)	247	260	273
Harvesting and sales costs (RMB/m^3)	50	53	56
General administration costs (RMB/hectare)	950	1,000	1,050
Gain/(Loss) from changes in fair value (RMB)	4,544,917,681	4,449,917,681	4,354,917,681
Yunnan Wenshan Forest			
Direct harvesting costs (RMB/m^3)	247	260	273
Harvesting and sales costs (RMB/m^3)	50	53	56
General administration costs (RMB/hectare)	950	1,000	1,050
Gain/(Loss) from changes in fair value (RMB)	1,757,723,960	1,684,723,960	1,611,723,960
All forests			
Gain/(loss) from changes in fair value (RMB)	6,217,364,199	6,024,364,199	5,831,364,199

	5.0% Decrease	Base Case	5.0% Increase
Sichuan forest			
Total yield estimate (m^3) *(note)*	2,618,200	2,756,000	2,893,800
Gain/(loss) from changes in fair value (RMB)	(170,277,442)	(110,277,442)	(50,277,442)
Yunnan Luxi/Shuangjiang Forest			
Total yield estimate (m^3) *(note)*	12,420,300	13,074,000	13,727,700
Gain/(loss) from changes in fair value (RMB)	4,209,917,681	4,449,917,681	4,688,917,681
Yunnan Wenshan Forest			
Total yield estimate (m^3) *(note)*	18,333,100	19,298,000	20,262,900
Gain/(loss) from changes in fair value (RMB)	1,537,723,960	1,684,723,960	1,830,723,960
All forests			
Total yield estimate (m^3) *(note)*	33,371,600	35,128,000	36,884,400
Gain/(loss) from changes in fair value (RMB)	5,577,364,199	6,024,364,199	6,469,364,199

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 above sensitivity analyses are intended for illustrative purposes only, and any variation could exceed the amounts shown above.

B. Depreciation of property, plant and equipment

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. We apply the following annual rates of depreciation:

Leasehold improvement	Over the lease terms
Office equipment	3 - 5 years
Furniture and fittings	5 years
Motor vehicles	10 years
ERP system	5 years

We reassess annually the useful lives and residual values of our assets.

C. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Inventories represent timber harvested from plantation assets. The cost of timber harvested from plantation assets is its fair value less costs to sell at the date of harvest, determined in accordance with the accounting policy for plantation assets.

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, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

D. Revenue recognition

We recognise revenue from sale of our logs when the significant risks and rewards of ownership have been transferred to the buyer. Although we require our customers to pay upfront for any log order before we harvest and deliver the logs to the roadside for customer pick up, we only recognise revenue when the customers pick up our logs. Revenue excludes VAT and is after deduction of any trade discounts.

E. Lease prepayments

Lease prepayments represent payments to acquire land use rights. Land use rights are carried at cost less amortisation and impairment losses and amortisation is charged to the income statements on a straight-line basis over the lease term. See note 2(g) of our consolidated financial information.

F. Income tax

We are not subject to any income tax and currently benefit from tax incentives in the PRC because we operate in the forestry sector. Pursuant to the tax notice, Cai Shui [2001] No. 171 issued by the Ministry of Finance and the State Administration of Taxation of the PRC, Beijing Zhaolin was not liable to income tax during the Track Record Period because the income of this entity was derived from the forestry business. Our PRC legal advisers have confirmed that the State Administration of Taxation of the PRC is the appropriate competent authority to issue such tax notice. During the Track Record Period we made no provisions for income taxes in the Cayman Islands, the BVI, Hong Kong or the PRC as there were no assessable profits subject to income taxes in those jurisdictions during that period.

According to the new PRC EIT Law which was enacted by NPC on 16 March 2007 and became effective on 1 January 2008, both domestic enterprises and enterprises with foreign investment will be subject to a uniform tax rate of 25% for China-sourced and overseas-sourced income. With respect to our PRC subsidiaries, Kunming Ultra Big has received benefits of income tax exemption for income derived from forestry business in 2008 and 2009, and Chengdu Yishang does not need to apply for income tax benefits as it does not own any forests and does not generate any income or revenue. Without any tax benefits or preferential tax treatments Kunming Ultra Big and Chengdu Yishang will be subject to income tax at a rate of 25%. Pursuant to section 27 of the new PRC EIT Law and section 86 of the Implementation Regulations of the new PRC EIT Law, the income of Kunming Ultra Big and Chengdu Yishang derived from forestry business is exempt from income tax. See note 6(c) of our consolidated financial information.

Pursuant to section 37 of the new PRC EIT Law, section 91 of the Implementation Regulations of the new PRC EIT Law and other relevant sections, distribution of dividends by any PRC resident corporations to any corporate Shareholder that is not a PRC resident, is subject to income tax withholding at a rate of 10% to the extent such dividends are derived from the PRC unless any such non-resident corporation's place of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. We are required by the PRC EIT Law to withhold the income tax at the required rate from the distribution of dividends to such corporate Shareholder and pay the withheld amount directly to the PRC government when it becomes due. Our PRC legal advisers have confirmed that as long as we have complied with the income tax withholding requirements under the PRC EIT Law we should not be held responsible for any income tax liabilities incurred in connection with the distribution of dividends to such corporate Shareholders who are not PRC residents. Please refer to note 6(c) of the Accountants' Report for further details of the Group's arrangements in respect of withholding tax.

We monitor releases and regulations which are promulgated from time to time by the PRC tax authorities to assess our tax situation and anticipate dealing with any changes in our tax liability through restructuring our operations and maintaining sufficient liquidity to meet any new tax obligations. The tax treatment of our transactions are reconsidered periodically to take into account all changes in tax legislations.

DESCRIPTION OF SELECTED INCOME STATEMENT ITEMS

Revenues

Revenues, or turnover, represent sales value of goods supplied to customers less value added tax, returns and trade discounts. The table below sets out our revenues for the periods indicated.

	Financial year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
			(RMB)	(unaudited)	
Revenues	70,122,597	160,318,269	544,947,744	117,056,039	373,247,913

We generate revenues solely from the sale of logs. Revenues are recognised when the significant risks and rewards of ownership have been transferred to the buyer.

For the two years ended 31 December 2007, the majority of our revenues were derived from log sales to customers located within Sichuan, principally in Ya An City. A significant portion of such revenues has historically been derived from sales to wood processing factories in Ying Jing county in Ya An City, Sichuan. We began additional logging operations in Yunnan in May 2008 which is the primary reason for the increase of the revenue for the year ended 31 December 2008. For the year ended 31 December 2008 and the six months ended 30 June 2009, approximately 29.5% and 18.6% of our turnover of the respective periods came from our sale of logs harvested in Sichuan, and approximately 70.5% and 81.4% of our turnover of the respective periods came from our sale of logs harvested in Yunnan.

The below table shows our percentage of total revenues from the tree species whose logs we sold during the periods indicated.

	Financial year ended 31 December			six months ended 30 June	
	2006	2007	2008	2008	2009
			(RMB)	(unaudited)	
Percentage of total revenues from Chinese fir	94.5%	96.6%	33.9%	74.9%	22.6%
Percentage of total revenues from Yunnan pine	5.5%	3.4%	5.7%	4.4%	4.6%
Percentage of total revenues from beech	—	—	24.1%	6.9%	30.4%
Percentage of total revenues from birch	—	—	36.3%	13.8%	42.4%

The below table shows the volume of log sales attributable to our Sichuan and Yunnan forests, respectively, during the periods indicated.

	For the period ended				
Log sales volume (m3)	31 Dec 2006	31 Dec 2007	31 Dec 2008	30 Jun 2008	30 Jun 2009
Sichuan	76,200	169,800	180,207	92,607	81,200
Yunnan	0	0	340,200	30,000	240,730
Total	76,200	169,800	520,407	122,607	321,930

The below table shows the volume, in cubic metres, of log sales from our tree species whose logs we sold during the periods indicated.

	Financial year ended 31 December			six months ended 30 June	
	2006	2007	2008	2008	2009
			(m^3)	(unaudited)	
Log sales volume of Chinese fir	72,100	164,100	208,207	96,607	98,700
Log sales volume of Yunnan pine	4,100	5,700	36,000	6,000	20,400
Log sales volume of beech	—	—	115,000	7,000	88,330
Log sales volume of birch	—	—	161,200	13,000	114,500
Total sales volume of logs*(Note)*	76,200	169,800	520,407	122,607	321,930

Note: For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, the actual logging amount were 75,909 m^3, 169,329 m^3 519,928 m^3 and 356,730 m^3 respectively.

The below tables shows the percentage of revenues derived from our five largest customers.

	Financial year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Customer 1	47.1%	22.7%	9.7%	10.1%	12.8%
Customer 2	28.8%	20.3%	9.5%	9.7%	12.3%
Customer 3	11.8%	16.1%	9.0%	9.7%	11.3%
Customer 4	3.5%	13.4%	8.4%	9.7%	10.3%
Customer 5	2.7%	12.8%	8.2%	9.3%	9.5%
Total % of revenues	93.9%	85.3%	44.8%	48.5%	56.2%

Our five largest customers for the two years ended 31 December 2007 were purchasers of our logs harvested in Sichuan. We did not begin logging activities in Yunnan until May 2008, but all of our five largest customers for the year ended 31 December 2008 and the six months ended 30 June 2009 came from Yunnan.

During the Track Record Period, all of our revenue was derived from log sales within the PRC. We do not export any of our logs. We do not have segment reporting by business segment or geographic territory because during the Track Record Period all of our revenues were derived from log sales and all of our log sales were within the PRC.

Changes in fair value of plantation assets

Changes in fair value of plantation assets consist of unrealised gains or losses that are attributable to the revaluation of our forests less costs to sell. IAS 41 on accounting for biological assets requires us to account for our forests based on the fair value of our plantation assets less costs to sell. At each balance sheet date, our plantation assets are valued at fair value less costs to sell. The aggregate gain or loss arising from the initial recognition of our forests and from the change in the fair value of our forests, less costs to sell, is recognised in our consolidated income statement as profit or loss. Any such profit or loss reflects only unrealised gain or loss on our plantation assets as at the relevant balance sheet date and does not generate actual cash inflow or outflow unless such plantation assets are disposed of at such revalued amounts.

See "— Critical Accounting Policies — Fair value of plantation assets less costs to sell" for further information regarding the basis of determination of gain/(loss) from changes in fair value of plantation assets less costs to sell.

Changes in fair value of plantation assets upon initial acquisition of plantation assets. In the 2006, 2007 and 2008 financial years, and in the 2008 and 2009 first halves, we recognised unrealised gains of RMB202.7 million, RMB596.4 million, RMB6,635.1 million, RMB4,971.2 million and RMB nil, respectively, due to changes in fair value of plantation assets less costs to sell upon initial acquisition of plantation assets.

Except for the 2009 first half, we recognised these substantial unrealised gains because we were able to acquire our forests at a relatively low price during such periods. For instance, the substantial increase of the recognised unrealised gains for the year ended 31 December 2008 is attributable to the acquisition of Yunnan Luxi/Shuangjiang Forest in March 2008 and Yunnan Wenshan Forest in July 2008 at favourably low prices. The lower the purchase price of our forests, the greater the difference between purchase price and the value, which is recognised in this line item as unrealised gains, which contribute significantly to our profit for the year. We did not recognise any unrealised gains for the 2009 first half because we did not acquire any plantation assets during this period. The majority of our forests were previously owned by the forest farmers or the villages and they were willing to accept a purchase price lower than the prevailing market price for the reasons set out below:

(i) certain fixed costs are incurred in operating a forest regardless the size of forest. The smaller the parcel of forest, the smaller the size of harvest, and hence, the higher the cost per mu and the lower the profit per mu. Also, the number of mature trees varies. The smaller the parcel of forest, the less likely that there is an even distribution of trees with different ages, the higher possibility that the income and profit of individual farmers or villages vary substantially from year to year. As such, it may not be cost efficient to operate a small parcel of forest. Based on our experience, we also believe that, for policy reasons, the local forestry bureau is generally reluctant to issue logging permits to individual forest farmers as there are too many of them and they are too fragmented;

(ii) in some instances, the boundaries of the forests are not clear and a single forestry right certificate may be issued to a group of forest farmers who own the forest adjacent to such boundaries, resulting in disputes among these forest farmers when logging in the disputed boundary areas, making the commercial exploitation of forests difficult;

(iii) for forests owned by villages, the villagers who share the ownership of the forest are generally reluctant to share the responsibility of maintaining the forest. This makes the commercial exploitation of the forests less likely; and

(iv) when we acquire forests from forest farmers, we invite them to join us as forest workers and enhance their living standards by providing them stable and regular incomes. Were they to harvest the logs on their own, they may have less stable income due to difficult harvests during the rainy season.

During the Track Record Period, the fair value of our forests taken together was much larger than the sum of the individual small parcels we acquired. Individual small parcels of forests each have a lower fair value when valued on its own because of the inherent limitations of the owner to realise each small parcel’s commercial potential as described above.

During the Track Record Period, the purchase price of the forests was determined through arm’s length negotiations based on the valuation results of the independent forestry valuer that we engaged to issue a valuation report for a forest that we are proposing to acquire, and based on good faith negotiations with the seller.

Going forward, we expect that our gains, and thus our profit for the year, will be partly offset by a decrease in changes in fair value of plantation assets upon initial acquisition as a result of increased purchase price as the forestry sector develops, as sellers become more sophisticated and the asking prices for forests increase.

Changes in fair value of plantation assets during the year. In the 2006 and 2007 financial years, and the first halves of 2008 and 2009, we recognised unrealised gains of RMB147.8 million, RMB202.1 million, RMB367.2 million, and 518.9 million respectively; in the 2008 financial year, we recognised unrealised losses of RMB610.8 million, due to changes in fair value of plantation assets less costs to sell during the year.

Except for the 2008 financial year, we recognised these unrealised gains as a result of increased timber value due to increased market prices and increased forest value due to tree growth, both of which are offset by harvesting. With respect to the 2008 financial year, the recognised unrealised loss of RMB610.8 million was primarily due to the decrease in log prices and the revised yield estimate.

No revision in yield estimate prior to 2008

Prior to 2008, the Group owned forests in Sichuan only, 52% (in terms of area) of which were acquired in the second half of 2007 and the harvesting activities of such forests in Sichuan did not commence until the first half of 2008.

During the first quarter of 2008 when fair value of the Group's forests was estimated for the preparation of financial statements for the three years ended 31 December 2007, CFK compared the yield estimate of the Sichuan forests shown in the survey prepared by an independent local valuer (contracted by the Company for pre-acquisition due diligence) with that contained in the survey data undertaken by the government and noted that the yield estimate in those two sets of data were consistent. In addition, the Company found that the yield data based on its harvesting records with respect to the Sichuan forests acquired prior to the second half of 2007 and the yield estimate based on CFK's physical inspection of the Sichuan forest was consistent with that contained in the survey data undertaken by the government. Furthermore, CFK has also had discussions with the management of the Company and the officials at the relevant government authority to understand how the survey data was collected by the Company and the government and concluded that such survey data was collected in accordance with normal industry practice. Since there were no material inconsistencies in the yield estimate among the independent local valuer survey data, Company's harvesting record, CFK's physical inspection and the government survey data, CFK determined yield estimate of the Sichuan forests based on that contained in the survey data undertaken by the government when estimating fair value of the Group's forests in Sichuan for the preparation of financial statements for the three years ended 31 December 2007.

Revision in yield estimate for 2008

We acquired the Yunnan Luxi/Shuangjiang Forest in March 2008 and Yunnan Wenshan Forest in July 2008. Harvesting activities in Sichuan forests acquired in the second half of 2007 and Yunnan Luxi/Shuangjiang Forest commenced in the first half of 2008. In that regard, throughout 2008, the Group was able to collect updated yield data via (a) monitoring and recording exercises on such forests through its forest team and (b) its harvesting activities in the Sichuan forests and Yunnan Luxi/Shuangjiang Forest. These activities allowed us to collect more data on tree growth and condition of our forests such as forest areas, species, stem diameter, tree spacing, growth condition, yield data, tree height, and forest stock volume, etc. The forest data, including the yield data, of the Sichuan forests and the Yunnan Luxi/Shuangjiang Forest can be compared against that undertaken by the government and that shown in survey prepared by the independent local valuer mentioned above.

During the first quarter of 2009 when fair value of our forests was estimated for the preparation of financial statements for the year ended 31 December 2008, we reviewed the latest available forest data, including the yield data, for our Sichuan forests and Yunnan Luxi/ Shuangjiang Forest and compared them with those undertaken by the government and noted that the yield data contained in the Group's latest forest data for the Sichuan forests and the Yunnan Luxi/Shuangjiang Forest was lower than that shown in the government survey data. In view of such inconsistency, we engaged CFK to revisit our forests and conduct an independent survey to verify whether the yield data collected by our forest team and harvesting activities is materially inconsistent with and lower than that contained in the government survey data.

Independent surveys performed by CFK

CFK has performed independent surveying in March and August 2009.

March 2009 independent survey

In performing its independent surveying in March 2009, CFK randomly selected 12, 12 and 11 samples from our Sichuan forests, Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest, respectively. CFK selected such samples from different portions of our forests with varying physical conditions (e.g. soil type) and thus considered them representative of the expected and observed variation in yield and sufficient to benchmark against the yield estimates contained in the government survey data. In addition, CFK physically inspected the samples selected in respect of their conditions such as diameter, height and tree volume and discussed its observations with both our the management and forest workers.

As the yield data we collected from harvesting activities and the independent measurements performed by CFK indicated that our actual yield data was lower than that contained in the government survey (that is, the best available information on which the Group could rely previously), yield estimate was revised in 2008 accordingly.

August 2009 independent survey

To enhance reliability of the results of March 2009 independent survey, CFK performed an additional surveying in August 2009. CFK randomly selected an extra 145 samples from our Yunnan Wenshan Forest, with the consistent application of sampling methodology adopted in its March 2009 independent survey. As access to our Sichuan forests and Yunnan Luxi/ Shuangjiang Forest was disrupted by the heavy rain in August 2009, CFK was unable to perform additional surveying for such forests.

Work performed by CFK in its August 2009 independent survey was identical to that performed in March 2009. As results of the August 2009 independent survey for Yunnan Wenshan were consistent with those of the March 2009 independent survey, CFK considered no additional survey was required for our Sichuan forests and Yunnan Luxi/Shuangjiang Forests.

Measurement performed by the Group

The Group has conducted monitoring and recording exercises on its forests via its forest team. Further, before and after 2008, the Group has also taken and will continue to take its own measurements on the relevant forests samples (in respect of tree growth and conditions such as area, species, stem diameter, tree height, forest stock volume) in such frequencies based on its audit requirements (i.e. conducting periodical reviews for the preparation of interim and annual financial statements) or where there is a possible acquisition.

No retrospective adjustment to valuation prior to 2008

According to IAS 8, retrospective adjustments will only be made if there is either a fundamental error or change in accounting policies. No retrospective adjustments will be necessary for any change in accounting estimate.

As the Group's revision in yield estimate (arising from the availability of updated yield data after the commencement of harvesting activities) is considered a change in accounting estimate and it did not constitute a correction of error or a change in accounting policies, no retrospective adjustment to valuation of the Group's forests prior to 2008 was therefore necessary.

Revision of yield estimates

The Group's approach to revising yield estimates

Generally, the Group would estimate yield either at the time of carrying out a valuation (for example, in connection with an acquisition of forests), or in connection with its audit requirements. Since 2008, in addition to estimating yield as part of the pre-acquisition due diligence exercise carried out on the Yunnan Luxi / Shuangjiang Forest and Yunnan Wenshan Forest acquired in 2008, the Group also conducted review of estimated yield on a semi-annual basis in connection with its audit (that is, 30 June and 31 December) in addition to reviewing other tree data including forest stock volume, number of trees, stem length, stem height, tree species, tree age and tree spacing etc. CFK confirmed that such frequency of review (that is, when there is a possible acquisition or an audit requirement) is in line with the industry practice.

Consistent application of valuation methodology

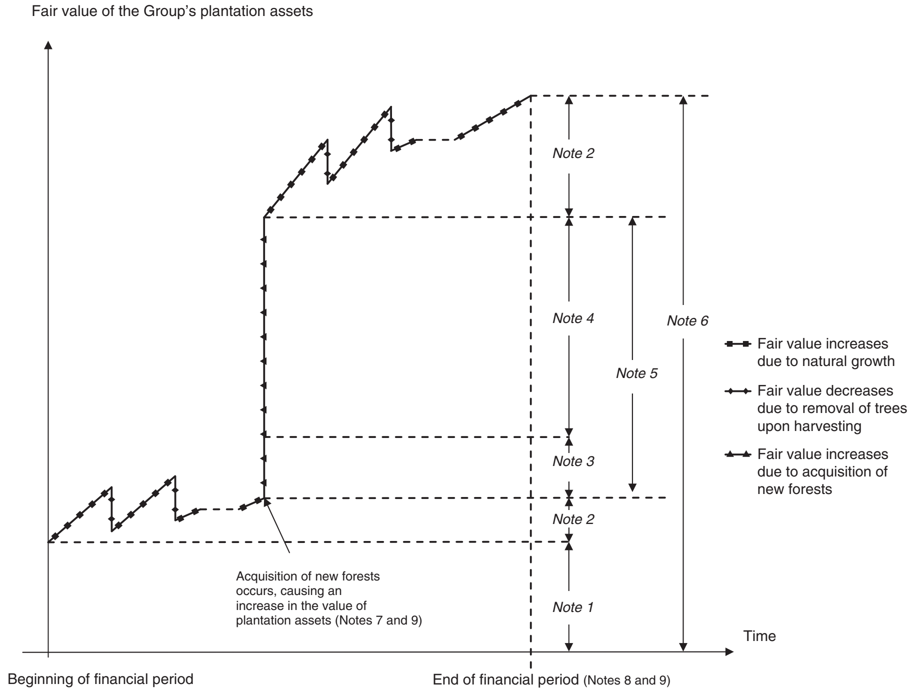
While the yield estimate was revised due to the availability of more updated information, the same valuation methodology (which is in compliance with industry standards) has been consistently applied.

View of CFK

Valuation of the Group's plantation assets is derived using a net present value approach, involving assumptions such as discount rate, log price, operation costs and yield estimate. Yield estimate, by its nature, is subject to subsequent revision upon the availability of more updated information.

CFK is of the view that the revision of yield estimates in 2008 was neither a change in accounting policy nor correction of error, as it was resulted from the availability of more updated information collected after the commencement of harvesting activities. Further, the revision of yield estimates upon availability of more updated information is in line with the professional standards and industry practice worldwide.

For illustration purposes only, the following chart demonstrates the fair value changes of the Group's plantation assets during a financial period with the assumption that there is an acquisition of new forest.



Notes:

1. *It represents the fair value of our plantation assets as at the beginning of the respective financial period.*

2. *Together they represent the changes in fair value of plantation assets (net of harvesting) less costs to sell during the year.*

3. *It represents the acquisition cost of new forests.*

4. *It represents the changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets.*

5. *It represents the fair value of the newly forests as at the date of acquisition.*

6. *It represents the fair value of our plantation assets (including the newly acquired forests but less of harvesting) as at the end of the respective financial period.*

7. *An independent forestry asset valuer will be engaged to assess, using the net present value approach and in accordance with the IAS 41 standards, the fair value of the new forest as at the date of the acquisition.*

8. *An independent forestry asset valuer will be engaged to assess, using the net present value approach and in accordance with the IAS 41 standards, the fair value of our entire plantation assets as at the end of the respective financial period.*

9. *We engaged CFK, an independent forestry asset valuer, to determine the fair value of plantation assets less costs to sell, as at each balance sheet date and acquisition date during the Track Record Period. CFK used the information from our Group to create a description of the species, area, age and volume at each valuation date. CFK also had access to log prices and costs that applied at each of the valuation dates. CFK also undertook a Capital Asset Pricing Model ("CAPM") analysis using information applicable to the date of valuation. This allowed CFK to create a valuation model of net present value based on the forest description as at the valuation date, and using price and cost inputs that were applicable to the valuation date.*

CFK assessed the forest health as part of its visit to the forests in March 2009 and August 2009. As there was no evidence of significant historical mortality, it used information of post valuation date to assess tree health in prior years. CFK did not use information on future log prices or costs when calculating the retrospective valuations. For example, when calculating the value as at December 2005, actual log price or production cost information for 2006 and 2007 was not used. In addition, other than the information provided by the Group, CFK took into account surveys performed by the local forestry bureaus and surveys undertaken by certified PRC valuers who valued the forests in 2004, 2005 and 2006.

The changes in fair value of plantation assets less costs to sell are mainly attributed to: (i) non-physical factors which include the change of log price, administrative expenses, selling expenses and harvesting costs; and (ii) physical factors including tree growth and changes caused by harvesting. The table below shows how these factors affected the fair value of plantation assets less costs to sell during the indicated periods:

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB million				
Sichuan forests					
● Due to non-physical factors					
— Price	39	59	25	—	—
— Costs	(21)	1	(24)	—	—
● Due to physical factors					
— Revision in yield estimate	—	—	(139)	—	—
— Initial acquisitions	203	596	—	—	—
— Others	129	142	28	61	45
	350	798	(110)	61	45
Yunnan Luxi/Shuangjiang Forest					
● Due to non-physical factors					
— Price	—	—	(462)	—	—
— Costs	—	—	34	—	—
● Due to physical factors					
— Revision in yield estimate	—	—	(445)	—	—
— Initial acquisitions	—	—	4,993	4,971	—
— Others	—	—	330	306	281
	—	—	4,450	5,277	281
Yunnan Wenshan Forest					
● Due to non-physical factors					
— Price	—	—	(91)	—	—
— Costs	—	—	(73)	—	—
● Due to physical factors					
— Revision in yield estimate	—	—	—	—	—
— Initial acquisitions	—	—	1,642	—	—
— Others	—	—	206	—	193
	—	—	1,684	—	193
Total	350	798	6,024	5,338	519
All forests					
● Due to non-physical factors					
— Price	39	59	(528)	—	—
— Costs	(21)	1	(63)	—	—
● Due to physical factors					
— Revision in yield estimate	—	—	(584)	—	—
— Initial acquisitions	203	596	6,635	4,971	—
— Others	129	142	564	367	519
	350	798	6,024	5,338	519

Note:

* Others mainly include tree growth and change causes by harvesting.

See "Critical Accounting Policies — Fair value of plantation assets less costs to sell" for a description of the manner of determination by our independent valuer and effect of these and other factors reflecting changes to the fair value less costs to sell of our forests.

Amortisation of insurance premium

Amortisation of insurance premium represents the amortisation expenses of forest insurance premium. We have insured the forests against disasters, such as fire, flood and snow. The payment of such insurance premium is made in advance and is amortised on a systematic basis over the insurance term.

The below table shows the changes during the year of prepaid insurance premium during the periods indicated.

	Reference to the Accountants Report	Financial year ended 31 December			Six months ended 30 June
		2006	2007	2008	2009
		(RMB)			
Premium					
Beginning Balance		2,486,727	5,471,861	18,753,877	34,645,008
Additions		2,985,134	13,282,016	15,891,131	5,965,439
Ending Balance		5,471,861	18,753,877	34,645,008	40,610,447
Accumulated amortisation					
Beginning Balance		515,138	1,308,614	3,391,678	13,320,833
Charge for the period	Consolidated income statement	793,476	2,083,064	9,929,155	9,736,915
Ending Balance		1,308,614	3,391,678	13,320,833	23,057,748
Net book value					
Beginning Balance		1,971,589	4,163,247	15,362,199	21,324,175
Ending Balance	Note 15	4,163,247	15,362,199	21,324,175	17,552,699

Other operating income

Other operating income represents the fair value of tree saplings that is given to us by the forestry bureaus free of charge. We are required to replant every tree we harvest using tree saplings. Other operating income increases as harvesting rates increase. The more we harvest, the more tree saplings we use in order to replant the trees we harvest. We do not have any other type of operating income as our turnover is solely from log sales.

The records of the number, location, species and timing of tree saplings planted are kept by our resources management department and can be checked against the documents provided by the local forestry bureaus.

Reversal of fair value of plantation assets upon logging and operating expenses for logging activities

Reversal of fair value of plantation assets upon logging constitute the fair value of the plantation assets less costs to sell upon logging, and which were subsequently sold. Reversal of fair value of plantation assets upon logging and operating expenses for logging activities constitute our cost of sales. We do not include a cost of sales line item in our consolidated income statements because we believe our current presentation of cost of sales as reversal of fair value of plantation assets upon logging and operating expenses for logging activities more fairly presents our upstream business and financial position.

Our Company is purely an upstream business: we only manage forests and sell timber and we do not manufacture products. Our sole inventory and product are logs which we harvest and sell without further processing. Because our primary assets are our plantation assets, we are required to adopt the accounting standards applicable to biological assets, which is IAS 41. Unlike a downstream business, we do not use cost accounting. Concepts of cost accounting, such as cost of sales and operating margins, are inapplicable to our business. For example, cost of sales relates to inventory, and our sole inventory is derived from biological assets. Biological assets are valued under IAS 41 differently from ordinary inventory. We are required to present the fair market value of biological assets, which in our case is much higher than the acquisition cost of such assets. If cost accounting is applied, because of the high fair value of our biological assets, we would show poor net profits and operating losses. Cost accounting thus distorts our business and financial condition. We believe that our presentation complies with IAS 41 and common market practice for upstream businesses in the PRC whose main assets consists of forest plantations.

Operating expenses for logging activities

Our operating expenses for logging activities consist of the following items:

	Financial year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
			(RMB)	(unaudited)	
Cost of harvesting	11,678,970	29,415,990	120,366,900	24,700,900	80,047,800
Forest Maintenance Fees	4,099,995	9,313,095	25,193,050	6,416,050	15,298,850

Other operating expenses

Our other operating expenses consist of the following items:

	Financial year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
				(unaudited)	
Office expenses	323,290	454,544	875,295	323,728	223,730
Entertainment expenses	600,770	1,124,940	860,377	541,725	249,366
Printing expenses	99,710	133,220	19,003	786	44,100
Advertising expenses	119,865	158,640	—	—	—
Meeting expenses	71,175	252,397	78,563	78,563	32,709
Mobile phone fees	44,481	74,771	99,844	61,809	21,934
Water and electricity	98	61,985	15,402	2,111	32,777
Management fee	690,980	647,083	214,924	74,666	136,599
Valuation expenses	204,730	728,000	613,581	613,581	300
Transportation expenses	78,140	256,732	729,754	354,293	236,524
Fee for company incorporation	—	210,852	—	—	—
Education levy and urban education levy	280,490	641,274	7,165,150	1,107,910	5,422,807
Donation	—	—	3,000,000	3,000,000	—
Others	299,582	756,927	614,179	1,447,256	323,034
	2,813,311	5,501,365	14,286,072	7,606,428	6,723,880

Entertainment expenses were incurred primarily in connection with meals and entertainment with business partners. Valuation expenses arose in connection with valuations done before each acquisition and at each balance sheet date. Education levy and urban education levy were surcharges paid to the PRC government calculated at 3% and 7% of VAT paid and the increase was mainly due to the increase in turnover during the Track Record Period. Donation of RMB3 million in 2008 was for the Sichuan Earthquake on 12 May 2008. The "others" in "other operating expenses" primarily refer to furnishing fees in 2006 and 2007, disability protection fund (the nature of which is explained below) and furnishing fees and loss on disposal of fixed assets (mainly relating to the relocation of the office of China Zhaoneng and disposal of assets associated with the dissolution of Beijing Zhaolin) in 2008 and furnishing fees in the first half of 2009. Furnishing fees are miscellaneous expenses incurred in connection with furnishing our offices. The disability protection fund is a fund to which an enterprise is required under the relevant PRC laws and regulations which took effect in 2007, to contribute for the welfare of the disabled if such enterprise fails to employ disabled people such that they constitute a minimum percentage of 1.5% of its workers. Increases in other operating expenses were in line with increases in turnover.

Financial income

Our financial income represents interest income earned from bank deposits in our savings account at a commercial bank.

Income tax

During the Track Record Period, our Group was not subject to any income tax as there were no assessable profits subject to income taxes in the Cayman Islands, the BVI, Hong Kong or the PRC.

We are entitled to certain tax allowances, incentives and concessions in the PRC. See “Factors Affecting Results of Operations — Tax incentives” for further information regarding such tax allowances, incentives and concessions.

Staff costs

Staff costs represent salaries, wages, and other benefits, contributions to defined contribution retirement schemes, and equity settled share-based payment expenses. Our only obligation for payment of pension benefits consists of our statutorily-mandated contributions to the defined contribution retirement schemes organised by the PRC municipal government authorities. In the 2008 financial year, we included for the first time during our Track Record Period equity settled share-based payment expenses in our staff costs. We recognised as staff costs RMB88,556,933 of share-based payment expenses due to the one-time equity-settled share-based transaction described in “History, Reorganisation and Corporate Structure — Other Transfer” below. RMB88,556,933 represents the difference of the fair value of the share transfer and the present value of consideration, which we recognised as staff costs according to our accounting policy.

We recognised the fair value of benefits in connection with share transfer to employees by a shareholder as a staff cost, to the extent that the fair value of shares transferred exceeds the present value of consideration payable with a corresponding increase in a capital reserve within equity. The fair value of shares transferred is measured at the grant date taking into account the terms and conditions upon which shares are transferred. Where employees are entitled to the benefits immediately at the grant date, the total amount of benefits is recognised immediately at that date. See note 4 and note 18 of our consolidated financial information for further details.

Profit for the year attributable to equity shareholders of our Company

Profit for the year attributable to equity holders of our Company represents our total equity, being the portion of our profit or loss attributable to equity interests that are owned, directly or indirectly through subsidiaries, by our Company.

COMPARISON OF RESULTS OF OPERATIONS

Comparison of the six months ended 30 June 2008 and 2009

Revenues

Revenues (turnover) are our revenues derived from log sales. Although we purchased Yunnan forests in the first quarter of 2008, our revenues for the 2008 first half include our Yunnan forests and Yunnan revenue only from May 2008 when we commenced logging in Yunnan.

Our revenues increased by 218.7% from RMB117.1 million for the 2008 first half to RMB373.2 million for the 2009 first half. The increase was primarily due to an increase in the volume of our logs sold. We sold 321,930 m^3 of logs for the 2009 first half, a 162.6% increase from the 122,607 m^3 of logs sold in the 2008 first half. The increase in volume of our logs sold was mainly attributable to the increase in our forest areas due to our forest acquisitions and our ability to offer customers more logs to meet their demands. This increase was driven less by change in customers, change in species, or change in log prices between these periods. Our average log prices (excluding VAT) of Chinese fir in RMB by cubic metres of wood at roadside sales were RMB900 for the 2008 first half and RMB853 for the 2009 first half, respectively, a decrease of 5.22%. The reason for such decrease in the average log prices (excluding VAT) for Chinese fir is because we apply a higher VAT rate to the log prices for the entire first half of 2009. For the first half of 2008, we applied 4% VAT rate before 1 April 2008, when our logs were sold in the name of Beijing Zhaolin, our predecessor entity, which enjoyed a 4% VAT rate, and 13% VAT rate after 1 April 2008, when our logs were sold in the name of Kunming Ultra Big, our PRC subsidiary, which is subject to a 13% VAT rate, namely the rate applicable to non-small forestry enterprises whose turnover has reached a certain level. For the first half of 2009, we applied 13% VAT rate to our average log prices (excluding VAT). Our PRC legal advisers have advised that Kunming Ultra Big should be subject to a 13% VAT rate for the first half of 2009. Our average log price of Chinese fir logs (including VAT) decreased by approximately 1.7% in the first half of 2009 compared to the same period in 2008, primarily due to the change of the market price and market demand in the PRC and the impact of the global financial crisis which commenced in September 2008.

Other operating income

Other operating income, which constitutes the fair value of the saplings we receive from the forestry bureaus for replanting purposes, increased by 309.1% from RMB119,636 in the 2008 first half to RMB489,381 in the 2009 first half. The increase was in line with increased harvesting activities. The fair value of individual saplings did not increase perceptibly between these periods.

Changes in fair value of plantation assets less costs to sell

We experienced a significant decrease in changes in fair value of plantation assets less costs to sell upon initial acquisition of plantation assets in the 2009 first half because we did not acquire any plantation assets during this period. As a result, changes in fair value of plantation assets less costs to sell upon initial acquisition of plantation assets decreased by RMB4,971 million or 100% from RMB4,971 million for the 2008 first half to none for the 2009 first half.

We experienced an increase in changes in fair value of plantation assets less costs to sell during the period. Changes in fair value of plantation assets less costs to sell during the period increased by RMB151.7 million or 41.3% from RMB367.2 million in the 2008 first half to RMB518.9 million in the 2009 first half. This increase was driven mainly by tree growth of our existing forests during the period, offset partly by harvesting during the same period.

Profit from operations

Our profits from operations decreased from RMB5,230.8 million from the 2008 first half to RMB487.9 in the 2009 first half. This material decrease was mostly attributable to changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets because of our acquisition of the Yunnan Luxi/Shuangjiang Forest in the 2008 first quarter and the fact that we did not acquire any forests in the 2009 first half.

Profit for the period

Profit for the period decreased from RMB5,231 million to RMB432.1 million. This material decrease was primarily attributable to changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets because of our acquisition of the Yunnan Luxi/Shuangjiang Forest in the 2008 first quarter and the fact that we did not acquire any forests in the 2009 first half.

Reversal of fair value of plantation assets upon logging

The amount of reversal of fair value of plantation assets upon logging increases with the logs harvested and sold as well as the log price. However, it decreases when Forest Maintenance Fees or harvesting expenses increase. Reversal of fair value of plantation assets upon logging increased 224% from RMB85.8 million in the 2008 first half to RMB278.0 million in the 2009 first half. This increase was primarily driven by increased turnover during this period. Assuming the log price, tree species sold, Forest Maintenance Fees and harvesting expenses remained the same for the 2008 first half, the increase in amount of logs sold would have caused the amount of reversal of fair value of plantation assets upon logging to increase by RMB175.8 million for the 2009 first half.

Consultancy fees

Consultancy fees consist of the fees we pay to the consultants and intermediaries in connection with the identification, negotiation and acquisition of new forests. We did not incur any consultancy fees for 2008 first half. For 2009 first half, we recognised RMB3,715,494 as consultancy fees. The significant increase of the consultancy fees in the 2009 first half was primarily due to our plan to acquire new forests in Qingchuan City, Sichuan. As at the Latest Practicable Date, we are still at a preliminary stage of identifying potential target forests for further consideration in Qingchuan City.

Operating expenses for logging activities

Operating expenses for logging activities increased by 206.4% from RMB31.1 million in the 2008 first half to RMB95.3 million in the 2009 first half primarily due to increased turnover, increased harvesting, increased cost of harvesting (including the engagement of professional harvesting teams), and increased cost associated with applying for logging permits. Our cost of harvesting increased 21.9% from RMB199 per m^3 in the 2008 first half to RMB245 per m^3 in the 2009 first half because of increased harvesting fee charged by the villages as the cost of workers increased. Our costs associated with applying for logging permits, consisting of Forest Maintenance Fees payments, increased 95.5% from approximately RMB8.8 million in the 2008 first half to approximately RMB17.2 million in the 2009 first half because of increased logging activities.

Amortisation of insurance premium

Amortisation of insurance premium is the amortisation of the premiums we pay for forest insurance. We purchase forest insurance to cover natural risks after we acquire new forests. Premium costs increase as forest areas increase. Amortisation of insurance premium increased by 199.3% from RMB3,253,283 in the 2008 first half to RMB9,736,915 in the 2009 first half. This increase was driven more by the increase in our forest area that was covered by forest insurance, and less by a material increase in insurance costs. The amortisation of insurance premium for the 2009 first half included insurance premiums we paid for our Yunnan Wenshan Forest, which we acquired in July 2008. We use the same insurance carrier for both our Sichuan and Yunnan forests, although our insurance policies have different termination periods. We are not protected against yearly increases in insurance premium going forward, but any changes in premium would require our consent in advance.

Amortisation of lease prepayments

Amortisation of lease prepayments is the amortisation of our payments for land use rights in connection with our new forest acquisitions. Amortisation of lease prepayments increased 176.7% from RMB1,395,370 in the 2008 first half to RMB3,861,236 in the 2009 first half, primarily due to an increase in new forest acquisitions rather than an increase in the cost of existing land use rights. The amortisation of lease prepayments included lease prepayments for our Yunnan Wenshan Forest, which we acquired in July 2008. Land use rights payments are determined through negotiations and affected by prevailing market prices for such rights.

Depreciation expenses

Depreciation expenses generally relate to depreciation of expenditures for office equipment, furniture and fittings. Depreciation increased 79.3% from RMB72,300 in the 2008 first half to RMB129,629 in the 2009 first half. The increase was due to the increase in the depreciation of property, plant and equipment.

Rental expenses of properties

Rental expenses of properties constitute the office rental expenses for the Group, which increased 6.8% from RMB883,153 in the 2008 first half to RMB943,550 in the 2009 first half, mainly because we leased additional office space in Hong Kong.

Auditors' remuneration

Auditors' remuneration consists of the fees we pay to our PRC auditors in connection with the statutory audit for the companies which comprised our Group. Auditor's remuneration decreased 63.8% from RMB118,831 in the 2008 first half to RMB43,000 in the 2009 first half, because we incurred less professional fees in relation to the preparation of the statutory audited financial statements during this period.

Other operating expenses

Other operating expenses decreased 11.8% from RMB7.6 million in the 2008 first half to RMB6.7 million in the 2009 first half. This decrease was primarily because we made a donation of RMB3 million for the Sichuan Earthquake in the first half of 2008.

Staff costs

Staff costs comprise salaries, wages, other benefits and contributions to defined contribution retirement plans. Staff costs decreased RMB85.7 million, from RMB91.4 million in the 2008 first half to RMB5.7 million in the 2009 first half. The significant decrease was because we had share-based payment expenses of RMB88,556,933 in connection with the one-time equity-settled share based transaction with Mr. Li Han Chun on 31 March 2008. Headcount increased by 93 from 307 employees in the 2008 first half to 400 employees in the 2009 first half which increase was in line with the increase in our forest areas and the logging activities.

Travelling expenses

Travelling expenses are expenses that our employees incur in connection with routine forest inspections and forest management tasks, as well as expenses incurred from visiting potential forest acquisition targets. Travelling expenses decreased by 8.2% from RMB867,354 in the 2008 first half, to RMB796,003 in the 2009 first half, primarily as a result of our cost-control efforts.

Foreign exchange (loss)/gain

Foreign exchange (loss)/gain represents the (loss)/gain recognised when comparing our monetary assets and liabilities denominated in foreign currencies translated at the foreign exchange rates prevailing on the date of the transactions and at the foreign exchange rates on the date of our financial statements. Although none of our sales are denominated in currency other than Renminbi, we had foreign exchange (loss)/gain during this period as a result of the US$35 million investment from the Carlyle Funds in 2008. Because such investment amount was made in US dollars, and because of the depreciation or appreciation of the US Dollar against Renminbi between the date the cash was received in our bank account and 30 June 2008 and 30 June 2009, respectively, we recognised foreign exchange loss of RMB2.3 million for the 2008 first half and foreign exchange gain of RMB164,837 for the 2009 first half.

Net financing income/(cost)

Our financial income consists solely of interest income from our cash deposits held in savings account at a commercial bank. We do not invest in any financial instruments and do not have any other type of financial income. For 2008 first half, we had financing income in the amount of RMB384,110. For 2009 first half, we had net financing cost of RMB55,802,860 because we recognised deemed interest expenses for the forest acquisition in the amount of RMB55,979,169 which offset the entire interest income earned from our cash deposits during the same period in the amount of RMB176,309. The deemed interest expenses are in connection with our acquisition of Yunnan forests in 2008. As the consideration for the forest acquisition was not scheduled to be paid up until two years after the acquisition date, the effect of discounting (calculated using an effective interest rate of 7.47%) is considered. The payable is stated at amortised cost at each period end and the amortisation for each period is recognised in the income statement as a deemed interest expense, payable to sellers of the forests acquired. The consideration for the forest acquisition would be settled by way of instalments from March 2008 to December 2009.

Profit for the period attributable to equity holders of our Company

Profit for the period attributable to equity holders of our Company is the same as our profit for the year because we have no minority interests.

Comparison of the financial years ended 31 December 2007 and 2008

Revenues

Revenues (turnover) are our revenues derived from log sales. Our revenues increased by RMB384.6 million or 239.9%, from RMB160.3 million for the year ended 31 December 2007 to RMB544.9 million for the year ended 31 December 2008. The increase in revenues in the 2008 financial year was primarily due to a significant increase in the volume of our logs sold during this period. We sold 520,407 m^3 of logs in the year ended 31 December 2008, an approximately 206.5% increase from the 169,800 m^3 of logs sold in the year ended 31 December 2007. The increase in volume of our logs sold was mainly attributable to the increase in our forest areas due to our forest acquisitions and our ability to offer customers more logs to meet their demands. However, the positive effects of the increased volume of our logs sold to our revenues for the year ended 31 December 2008 was partially offset by the decrease in our average log prices during the same period. The average log price (excluding VAT) in RMB by cubic metres of wood at roadside sales for Chinese fir decreased by approximately RMB77 or 8.2%, from RMB944 for the year ended 31 December 2007 to RMB867 for the year ended 31 December 2008, and same for Yunnan pine decreased by approximately RMB78 or 8.25%, from RMB945 for the year ended 31 December 2007 to RMB867 for the year ended 31 December 2008. The decrease in the average log prices (excluding VAT) was mainly due to the decrease in market price of logs as a result of reduced demand associated with the global financial crisis commencing in September 2008.

Other operating income

Other operating income increased by RMB37,840 or approximately 46.3%, from RMB81,796 for the year ended 31 December 2007 to RMB119,636 for the year ended 31 December 2008, primarily due to increased use of tree saplings for replanting because of increased harvesting.

Changes in fair value of plantation assets less costs to sell

Changes in fair value of plantation assets less costs to sell, upon initial acquisition of plantation assets, increased by RMB6,038.7 million or 1,012.5% from RMB596.4 million for the year ended 31 December 2007 to RMB6,635.1 million for the year ended 31 December 2008, due to new forest acquisition and increased market prices of logs.

Changes in fair value of plantation assets less costs to sell during the year decreased by RMB812.9 million or 402.2% from an unrealised gain of RMB202.1 million for the year ended 31 December 2007 to an unrealised loss of RMB610.8 million for the year ended 31 December 2008, was a result primarily of decreases in log prices and revised estimates of wood stock.

Profit from operations

Our profits from operations increased by RMB5,100.5 million or 650.9% from RMB783.6 million for the year ended 31 December 2007 to RMB5,884.1 million for the year ended 31 December 2008. This increase was primarily attributable to changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets, as well as increased turnover despite of the negative changes in fair value of plantation assets less costs to sell during the year.

Profit for the year

Profit for the year increased by RMB5,098.1 million, or approximately 650.5%, to RMB5,881.8 million for the year ended 31 December 2008 from RMB783.7 million for the year ended 31 December 2007. This increase was primarily attributable to changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets, because of our new forest acquisitions and increased turnover.

Reversal of fair value of plantation assets upon logging and sales of the plantation assets

The amount of reversal of fair value of plantation assets upon logging increases with the logs harvested and sold and the log price. However, it decreases when Forest Maintenance Fees or harvesting expenses increase. Reversal of fair value of plantation assets upon logging increased by RMB263.8 million or 217.8 % from RMB121.1 million for the year ended 31 December 2007 to RMB384.9 million for the year ended 31 December 2008, primarily due to increased turnover and new types of logs with higher log prices the sale of which commenced in 2008. Assuming the log price, Forest Maintenance Fees and harvesting expense remained the same as for the 2007 financial year, the increase in amount of logs sold would have caused the amount of reversal of fair value of plantation assets upon logging to increase by RMB306,134,069 for the 2008 financial year.

Consultancy fees

Consultancy fees consist of the fees we pay to the consultants and intermediaries in connection with the identification, negotiation and acquisition of new forests. Consultancy fees increased by RMB20,778,083, or approximately 7,695.6% from RMB270,000 for the year ended 31 December 2007 to RMB21,048,083 for the year ended 31 December 2008. The significant increase of the consultancy fees in the 2008 financial year was primarily due to our acquisition of new forests in Yunnan.

Operating expenses for logging activities

Operating expenses for logging activities increased by RMB106.9 million, or approximately 276.2%, from RMB38.7 million for the year ended 31 December 2007 to RMB145.6 million for the year ended 31 December 2008, primarily due to increased turnover, increased harvesting, increased cost of harvesting, and increased costs associated with applying for logging permits as well as the fact that we began logging our Yunnan Luxi/Shuangjiang Forest in May 2008. Our cost of harvesting increased 33.5% from RMB173 per m^3 in the 2007 financial year to RMB231 per m^3 in the 2008 financial year because of increased harvesting fee charged by the villages as the cost of workers increased as well as the fact that we engaged a professional harvesting company for our Yunnan Luxi/Shuangjiang Forest in the 2008 first half. Further, as we further expand our forests In Yunnan, our use of professional harvesting teams (which are generally more expensive than local villagers we use for our Sichuan forests) would increase and our operating costs would therefore expected to further increase accordingly. Our costs associated with applying for logging permits, consisting of Forest Maintenance Fees payments, increased 171% from approximately RMB9.3 million in the 2007 financial year to approximately RMB25.2 million in the 2008 financial year because of increased logging activities as we began the operations at our Yunnan Luxi/Shuangjiang Forest in May 2008.

Amortisation of insurance premium

Amortisation of insurance premium is the amortisation of the premiums we pay for forest insurance. We purchase forest insurance to cover natural risks after we acquire new forests. Premium costs increase as forest areas increase. Amortisation of insurance premium increased by RMB7.8 million, or approximately 371.4%, from RMB2.1 million for the year ended 31 December 2007 to RMB9.9 million for the year ended 31 December 2008, primarily due to an increase in new forest acquisitions.

Amortisation of lease prepayments

Amortisation of lease prepayments is the amortisation of our payments for land use rights in connection with our new forest acquisitions. Amortisation of lease prepayments increased by RMB4,192,372, or approximately 578.8%, from RMB724,362 for the year ended 31 December 2007 to RMB4,916,734 for the year ended 31 December 2008, primarily due to an increase in new forest acquisitions.

Depreciation expenses

Depreciation expenses represent depreciation of our office equipment, leasehold improvement, motor vehicles, and furniture and fittings. Depreciation expenses increased by RMB43,840, or approximately 23.5%, from RMB186,272 for the year ended 31 December 2007 to RMB230,112 for the year ended 31 December 2008 because we purchased additional office equipment, furniture and fittings, motor vehicles and made leasehold improvements as required by our expanding business operations. ERP system was under construction and not ready for use in 2008, thus no depreciation was charged.

Rental expenses of properties

Rental expenses of properties are our office rental expenses for our corporate headquarter in Beijing. Rental expenses of properties decreased by RMB0.8 million, or approximately 36.4%, from RMB2.2 million for the year ended 31 December 2007 to RMB1.4 million for the year ended 31 December 2008, primarily due to decreased office rent because we moved to a less expensive office in October 2007 and continued to occupy such space and paid a decrease rent for the entire year in 2008.

Auditor's remuneration

Auditor's remuneration consists of the fees we pay to our PRC auditors. Auditor's remuneration increased by RMB102,468, or approximately 341.6% from RMB30,000 for the year ended 31 December 2007 to RMB132,468 for the year ended 31 December 2008, primarily due to the professional fees incurred in relation to the preparation of the audited financial statements of Beijing Zhaolin for the year ended 31 December 2007 and the establishment of Kunming Ultra Big on 7 March 2008 and Chengdu Yishang on 21 March 2008.

Other operating expenses

Other operating expenses increased by RMB8.8 million, or approximately 160%, from RMB5.5 million for the year ended 31 December 2007 to RMB14.3 million for the year ended

31 December 2008, primarily due to education levy and urban education levy and a donation of RMB3 million for the Sichuan Earthquake in May 2008.

Staff costs

Staff costs comprise salaries, wages, other benefits and contributions to defined contribution retirement plans, and in the 2008 financial year, also include share-based payment. Staff costs increased by RMB94.7 million, or approximately 2,705.7%, from RMB3.5 million for the year ended 31 December 2007 to RMB98.2 million in the year ended 31 December 2008. Of the RMB98.2 million, RMB88,556,933 represented the share-based payment expenses in connection with the one-time equity-settled share based transaction between Mr. Li Kwok Cheong and Mr. Li Han Chun on 31 March 2008. Please refer to "History, Reorganisation and Corporate Structure — Other Transfer" for details. Aside from the increase due to the one-time share based transaction, increase in our staff costs was driven more by a large increase in salaries, due to the impact of the PRC Labour Contract Law which took effect on 1 January 2008, and less by the increase in headcount. The PRC Labour Contract Law establishes minimum wage, safety and educational requirements, all of which increased our staff costs as well as our regulatory compliance costs. Headcount increased 54.7% from 254 employees in the 2007 financial year to 393 in the 2008 financial year, due to our employment of new forest workers from daily maintenance of our forests in Yunnan, which we acquired in 2008.

Travelling expenses

Travelling expenses are expenses that our employees incur in connection with routine forest inspections and forest management tasks, as well as expenses incurred from visiting potential forest acquisition targets. Travelling expenses increased by RMB776,465, or approximately 83.3%, from RMB932,214 for the year ended 31 December 2007 to RMB1,708,679 for the year ended 31 December 2008, primarily due to increased forest management and acquisition activity.

Foreign exchange loss

Foreign exchange loss represents the loss recognised when comparing our monetary assets and liabilities denominated in foreign currencies translated at the foreign exchange rates prevailing on the date of the transactions and at the foreign exchange rates on the date of our financial statements. Although none of our sales were denominated in currency other than Renminbi, we had a foreign exchange loss for the first time during our Track Record Period in the 2008 financial year as a result of the US$35 million investment from the Carlyle Funds. Because such investment amount was made in US dollars, and because of the decline of the US Dollar against the Renminbi between the date the cash was received in our bank account and 31 December 2008, we recognised a foreign exchange loss of RMB3.05 million in the 2008 financial year.

Net financing cost

Our financial income consists solely of interest income from our cash deposits held in a savings account at a commercial bank. We do not invest in any financial instruments and do not have any other type of financial income. We recognised deemed interests expenses for the forest acquisition for the first time during our Track Record Period in the 2008 financial year in the amount of RMB3,854,221 which offset the entire interest income earned from our cash deposits during the same period in the amount of RMB1,480,623. As a result, our financial income decreased by RMB2,547,692 or 1,463.4% from RMB174,094 for the year ended 31 December 2007 to a net financing cost of RMB2,373,598 for the year ended 31 December 2008. As the consideration for the forest acquisition was not scheduled to be paid up until two years after the acquisition date, the effect of discounting (calculated using an effective interest rate of 7.47%) is considered. The payable is stated at amortised cost at each period end and the amortisation for each period is recognised in the income statement as a deemed interest expense, payable to sellers of the forests acquired. The consideration for the forest acquisition would be settled by way of instalments from March 2008 to December 2009.

Profit for the year attributable to equity holders of our Company

Profit for the year attributable to equity holders of our Company in the 2008 financial year was the same as our profit for the year because we had no minority interests. However, comprehensive income in the 2008 financial year was less than our profit for the year as a result of a recognised loss of exchange differences on translations of financial statements of subsidiaries incorporated outside the PRC for the first time during our Track Record Period in the amount of RMB273,221.

Comparison of the financial years ended 31 December 2006 and 2007

Revenues

Our revenues (turnover) increased by RMB90.2 million or 128.7%, from RMB70.1 million for the year ended 31 December 2006 to RMB160.3 million for the year ended 31 December 2007. We sold 169,800 m^3 of logs in the year ended 31 December 2007, a 122.8% increase from the 76,200 m^3 of logs sold in the year ended 31 December 2006. The increase in volume of our logs sold was mainly attributable to the increase in our forest areas due to our forest acquisitions and our ability to offer customers more logs to meet their demands. Our log prices (excluding VAT) in RMB by cubic metres of wood at roadside sales for the 2006 and 2007 financial years were RMB920 and RMB944, respectively, showing an increase of 2.6%. The increase in log prices was mainly due to the increase in market price of logs due to demand exceeding supply.

Other operating income

Other operating income increased by RMB34,012 or approximately 71.2%, from RMB47,784 for the year ended 31 December 2006 to RMB81,796 for the year ended 31 December 2007, primarily due to increased use of tree saplings for replanting because of increased harvesting.

Changes in fair value of plantation assets less costs to sell

Changes in fair value of plantation assets less costs to sell upon initial acquisition of plantation assets increased by RMB393.7 million or 194.2% from RMB202.7 million for the year ended 31 December 2006 to RMB596.4 million for the year ended 31 December 2007, due to new forest acquisitions and increased market prices of logs.

Changes in fair value of plantation assets less costs to sell during the year also increased by RMB54.3 million or 36.7% from RMB147.8 million for the year ended 31 December 2006 to

RMB202.1 million for the year ended 31 December 2007, due to new forest acquisitions which added significantly to our overall timber crop and due to tree growth during the year and increased market prices of logs, offset partly by harvesting during the year.

Profit from operations

Our profits from operations increased by RMB444.0 million or 130.7% from RMB339.6 million for the year ended 31 December 2006 to RMB783.6 million for the year ended 31 December 2007. This increase was primarily attributable to changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets, and to changes throughout the year in such fair value, as well as increased turnover.

Profit for the year

Profit for the year increased by RMB443.9 million, or approximately 130.6%, to RMB783.7 million for the year ended 31 December 2007 from RMB339.8 million for the year ended 31 December 2006. This increase was primarily attributable to changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets, and to changes throughout the year in such fair value, because of our new forest acquisitions and increased turnover.

Reversal of fair value of plantation assets upon logging

The amount of reversal of fair value of plantation assets upon logging increases with the logs harvested and sold and the log price. However, it decreases when Forest Maintenance Fees or harvesting expenses increase. Reversal of fair value of plantation assets upon logging increased by RMB66.2 million or 120.6% from RMB54.9 million for the year ended 31 December 2006 to RMB121.1 million for the year ended 31 December 2007, primarily due to increased turnover and increased log prices. Assuming the log price, Forest Maintenance Fees and harvesting expense remained the same as for the 2006 financial year, the increase in amount of logs sold would have caused the amount of reversal of fair value of plantation assets upon logging to increase by RMB100,532,200 for the 2007 financial year.

Consultancy fees

Consultancy fees consist of the fees we pay to the consultants and intermediaries in connection with the identification, negotiation and acquisition of new forests. Consultancy fees increased by RMB220,000, or approximately 440% from RMB50,000 for the year ended 31 December 2006 to RMB270,000 for the year ended 31 December 2007. The increase of the consultancy fees in the 2007 financial year was primarily due to our efforts to acquire new forests in Sichuan.

Operating expenses for logging activities

Operating expenses for logging activities increased by RMB22.9 million, or approximately 144.9%, from RMB15.8 million for the year ended 31 December 2006 to RMB38.7 million for the year ended 31 December 2007, primarily due to increased turnover, increased harvesting, Increased cost of harvesting, and increased costs associated with applying for logging permits. Our cost of harvesting increased 13.1% from RMB153 per m^3 in the 2006 financial year to RMB173 per m^3 in the 2007 financial year because of increased logging activities. Our costs associated with applying for logging permits, consisting of Forest Maintenance Fees payments, increased 127% from approximately RMB4.1 million in the 2006 financial year to approximately RMB9.3 million in the 2007 financial year because of increased logging activities.

Amortisation of insurance premium

Amortisation of insurance premium increased by RMB1.3 million, or approximately 162.5%, from RMB0.8 million for the year ended 31 December 2006 to RMB2.1 million for the year ended 31 December 2007, primarily due to an increase in new forest acquisitions.

Amortisation of lease prepayments

Amortisation of lease prepayments increased by RMB473,515 or approximately 188.8%, from RMB250,847 for the year ended 31 December 2006 to RMB724,362 for the year ended 31 December 2007, primarily due to an increase in new forest acquisitions.

Depreciation expenses

Depreciation expenses increased by RMB28,491, or approximately 18.0%, from RMB157,861 for the year ended 31 December 2006 to RMB186,272 for the year ended 31 December 2007 because we purchased additional office equipment and appliances as required by our expanding business operations.

Rental expenses of properties

Rental expenses of properties are our office rental expenses for our corporate headquarter in Beijing. Rental expenses of properties decreased by RMB0.1 million, or approximately 4.3%, from RMB2.3 million for the year ended 31 December 2006 to RMB2.2 million for the year ended 31 December 2007, mainly because we moved to a less expensive office in October 2007 and paid a decreased rent from October through December 2007.

Auditors' remuneration

We incurred auditor's remuneration costs of RMB30,000 for the first time in the Track Record Period for the year ended 31 December 2007 because our predecessor company, Beijing Zhaolin, engaged an accounting firm in the PRC to prepare the audited financial statements of Beijing Zhaolin for the year ended 31 December 2006. We did not incur any auditor's fees for the years ended 31 December 2005 because Beijing Zhaolin was not required by the PRC law to prepare audited financial statements prior to 1 January 2006.

Other operating expenses

Other operating expenses increased by RMB2.7 million, or approximately 96%, from RMB2.8 million for the year ended 31 December 2006 to RMB5.5 million for the year ended 31 December 2007, primarily due to new forest acquisitions and increased expenses in connection with such acquisitions.

Staff costs

Staff costs increased by RMB0.1 million, or approximately 2.9%, from RMB3.4 million for the year ended 31 December 2006 to RMB3.5 million for the year ended 31 December 2007. This increase was driven by a 15% increase in salaries and an 89.6% increase in headcount, which would have resulted in an increase in staff costs of greater than 2.9% for the year ended 31 December 2007 were it not for a change in the PRC General Rules Governing Enterprises Financial Affairs which, commencing on 1 January 2007, ceased to require employers to contribute a flat rate of 14% of salaries as staff welfare expenses.

Travelling expenses

Travelling expenses increased by RMB394,983, or approximately 73.5%, from RMB537,231 for the year ended 31 December 2006 to RMB932,214 for the year ended 31 December 2007, primarily due to increased forest management and acquisition activities.

Foreign exchange (loss)/gain

Foreign exchange (loss)/gain represents the (loss)/gain recognised when comparing our monetary assets and liabilities denominated in foreign currencies translated at the foreign exchange rates prevailing on the date of the transactions and at the foreign exchange rates on the date of our financial statements. We did not recognise any foreign exchange loss or gain for the two years ended 31 December 2007 because all of our sales were denominated in Renminbi and we had no other monetary assets and liabilities that were dominated by currency other than Renminbi during these periods.

Net Financial income

Our financial income increased by RMB24,470 or 16.4% from RMB149,624 for the year ended 31 December 2006 to RMB174,094 for the year ended 31 December 2007 primarily due to increased cash deposits from increased turnover.

Profit for the year attributable to equity holders of our Company

Profit for the year attributable to equity holders of our Company is the same as our profit for the year because we have no minority interests.

LIQUIDITY AND CAPITAL RESOURCES

We expend a significant amount of cash in our operations, principally on acquisition of new forests. We also expend cash in purchasing forest insurance, fixed assets and staff costs. We fund our operations principally through cash flow from operations. However, in the year ended 31 December 2008, we raised US$35 million for the first time during our Track Record Period through an external investment from the Carlyle Funds. In the six months ended 30 June 2009, we further raised approximately US$41 million from the Carlyle Funds and the Partners Group Funds. At 31 December 2006, 2007 and 2008, and at 30 June 2009, cash and cash equivalents were RMB25.0 million, RMB1.0 million, RMB104.5 million, and RMB382.0 million, respectively.

Cash flow

The following table sets out selected cash flow data from our consolidated cash flow statements for the periods indicated.

	Financial year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
			(RMB)		
Net cash generated from operating activities	43,490,926	96,042,152	376,592,857	47,864,050	284,887,561
Net cash used in investing activities	(36,211,416)	(120,000,900)	(347,835,316)	(47,897,561)	(287,586,028)
Net cash generated from financing activities	—	—	74,744,363	248,118,354	280,144,770
Net increase/ (decrease) in cash and cash equivalents	7,279,510	(23,958,748)	103,501,904	248,084,843	277,446,303

Cash generated from operating activities

Net cash generated from operating activities for the 2008 first half and the 2009 first half was RMB47.9 million and RMB284.9 million, respectively. The increase in net cash generated from operating activities in the 2009 first half was primarily due to increased log sales.

Net cash generated from operating activities was RMB43.5 million, RMB96.0 million and RMB376.6 million, respectively, for the 2006, 2007 and 2008 financial years. Each of these increases was mainly due to increase in log sales each year. Our profit for the year during the Track Record Period was significantly higher than the corresponding net cash generated from operating activities. This was because changes in fair value of plantation assets less costs to sell from our new forest acquisitions was the most significant contributor to our profit for the year.

Comparison of cash generated from operating activities and profit from operations

Net cash generated from operating activities for the 2009 first half amounted to RMB284.9 million, while our profit from operations for the same period was RMB487.9 million. The difference between these two amounts was largely due to changes in fair value of plantation assets, notably (a) changes in fair value of plantation assets less costs to sell for that period amounting to RMB518.9 million primarily due to the tree growth of our existing forests during this period, offset partly by harvesting during the same period; and (b) decreases in inventories, including reversal of fair value of plantation assets upon logging for that period amounting to RMB278 million because of sales of logs and timber, which amount is added to profit from operations for the period when calculating net cash from operating activities.

Net cash generated from operating activities for the 2008 first half amounted to RMB47.9 million, while our profit from operations for the same period was RMB5,231.2 million. The difference between these two amounts was largely due to changes in fair value of plantation assets, notably (a) changes in fair value of plantation assets less costs to sell for that period amounting to RMB5,338.4 million, primarily due to our acquisition of the Yunnan Luxi/Shuangjiang Forest in the 2008 first quarter, which amount was subtracted from profit from operations for the period when calculating net cash from operating activities; and (b) decreases in inventories, including reversal of fair value of plantation assets upon logging for that period amounting to RMB85.8 million because of sales of logs and timber, which amount was added to profit from operations for the period when calculating net cash from operating activities. A portion of the difference was also due to the fact that the share-based payment of RMB88.6 million in the first half 2008 was added to profit from operations for the period when calculating net cash from operating activities.

Net cash generated from operating activities for the financial year ended 31 December 2006 amounted to RMB43.5 million, while our profit from operations for the same period was RMB339.6 million. The difference between these two amounts was largely due to changes in fair value of plantation assets, notably: (a) changes in fair value of plantation assets less costs to sell for that period amounting to RMB350.5 million, primarily due to new forest acquisition of 2,683 hectares during the year, which amount was subtracted from profit from operations for the year when calculating net cash from operating activities; and (b) decreases in inventories, including reversal of fair value of plantation assets upon logging for that period amounting to RMB54.9 million because of sales of logs and timber, which amount was added to profit from operations for the year when calculating net cash from operating activities.

Net cash generated from operating activities for the financial year ended 31 December 2007 amounted to RMB96.0 million, while our profit from operations for the same period was RMB783.6 million. The difference between these two amounts was largely due to changes in fair value of plantation assets, notably: (a) changes in fair value of plantation assets less costs to sell for that period amounting to RMB798.5 million, primarily due to new forest acquisition of 7,850 hectares during the year, which amount was subtracted from profit from operations for the year when calculating net cash from operating activities; and (b) decreases in inventories, including reversal of fair value of plantation assets upon logging for that period amounting to RMB121.1 million because of sales of logs and timber, which amount was added to profit from operations for the year when calculating net cash from operating activities.

Net cash generated from operating activities for the financial year ended 31 December 2008 amounted to RMB376.6 million, while our profit from operations for the same period was RMB5,884.1 million. The difference between these two amounts was largely due to changes in fair value of plantation assets, notably: (a) changes in fair value of plantation assets less costs to sell for that period amounting to RMB6,024.4 million, primarily due to new acquisition of Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest during the year, which amount was subtracted from profit from operations for the year when calculating net cash from operating activities; and (b) decreases in inventories, including reversal of fair value of plantation assets upon logging for that period amounting to RMB384.9 million because of sales of logs and timber, which amount was added to profit from operations for the year when calculating net cash from operating activities. A portion of the difference was also due to the share-based payment of RMB88.6 million which was added to profit from operations for the year when calculating net cash from operating activities, and the increase in other payables of RMB54.3 million which was added to profit from operations for the period when calculating net cash from operating activities.

During the Track Record Period, the changes in fair value of plantation assets less costs to sell has increased much faster than the decrease in inventories for such period, because we have focused more on building our forest reserve than on logging and sales during the earlier phase of our operations.

See Note 20 of our consolidated financial information for a reconciliation of profit before taxation and net cash generated from operations.

Cash used in investing activities

Net cash used in investing activities for the financial years ended 31 December 2006, 2007 and 2008 amounted to RMB36.2 million, RMB120.0 million and RMB347.8 million, respectively. Net cash used in investing activities for the 2008 first half and the 2009 first half amounted to RMB47.9 million and RMB287.6 million, respectively.

Material cash outflows

Our material cash outflows for investing activities during the Track Record Period included payment for purchase of new forests, which constituted the largest use of cash, and also included payment for fixed assets, capital expenditures in lease prepayments and plantation assets, with an aggregate cost of RMB36.4 million, RMB120.2 million and RMB345.5 million in the 2006, 2007 and 2008 financial years, respectively, and RMB48.4 million and RMB255.3 million in the 2008 and 2009 first halves, respectively. All of these purchases were made with our cash from operations.

During the Track Record Period, we also incurred capital expenditures as follows:

	Financial year ended 31 December			Six months ended 30 June
	2006	**2007**	**2008**	**2009**
			(RMB)	
Leasehold improvement	—	—	121,035	—
Office equipment	139,132	26,205	257,592	85,003
Furniture and fittings	264,474	—	356,680	18,136
Motor vehicles	—	—	314,677	365,368
ERP system	—	—	6,221,805	1,501,540
Total	403,606	26,205	7,271,789	1,970,047

Net cash generated from financing activities

We generated net cash from financing activities for the first time during the Track Record Period for the year ended 31 December 2008 amounted to RMB74.7 million which was the difference between the proceeds from issuance of Shares (net of related expenses) to the Carlyle Funds amounted to RMB248.1 million and the payment made to our Shareholder upon Reorganisation amounted to RMB173.4 million. For details of the RMB173.4 million payment made to our Shareholder upon Reorganisation, please see the section headed "Financial Information — Recent Developments" and note 26 of the Accountants' Report set out in Appendix I to this document. Net cash generated from financing activities for the 2008 first half and the 2009 first half was RMB248.1 million and RMB280.1 million, respectively. For both of the 2008 and 2009 first halves the net cash generated from financing activities was of the same amount as the proceeds from issuance of Shares (net of related expenses). The increase in net cash generated from financing activities between the 2008 first half and the 2009 first half was primarily due to the second round investment made by the Partners Group Funds and the Carlyle Funds.

Working capital

Our working capital position is affected by the following factors, among others.

Net current assets/liabilities position. As at 31 December 2006, 2007 and 2008 respectively, we had a net current assets position of RMB28.7 million, RMB20.4 million, and net current liabilities position of RMB169.4 million, respectively. As at 30 June 2009, we had a net current asset position of approximately RMB1.0 million, primarily arising from the increase in cash and cash equivalents resulted from the second round investment made by the Carlyle Funds and the Partners Group Funds.

Cash flow from operations. Net cash generated from operating activities amounted to RMB43.5 million, RMB96.0 million and RMB376.6 million, respectively, for the years ended 31 December 2006, 2007 and 2008, and RMB47.9 million and RMB284.9 million, respectively, for the 2008 and 2009 first halves.

Bank balances and cash. As at 31 December 2006, 2007 and 2008, respectively, we had deposits and cash at bank and in hand of RMB25 million, RMB1.0 million, and RMB104.5 million, respectively. As at 30 June 2009, we had deposits and cash at bank and in hand of RMB382.0 million.

Other payables. As at 31 December 2006, 2007 and 2008, respectively, our other payables were RMB3.2 million, RMB2.3 million, and RMB632.5 million, respectively. As at 30 June 2009, our other payables were RMB460.0 million. See "Certain Balance Sheet Items — Total current liabilities position" below for further details as to the components of other payables.

Inventories. As at 31 December 2006, 2007 and 2008, respectively, our inventories were RMB684,176, RMB346,409, and nil, respectively. As at 30 June 2009, our inventories were RMB20.4 million. Compared to prior periods, our inventory as at 30 June 2009 was much higher because we harvested more logs in June in anticipation of the rainy season in Sichuan, namely from July to September, during which period, for safety concerns, we undertake no harvesting activities in Sichuan.

Capital expenditures and investments. For the 2006, 2007 and 2008 financial years, and the 2008 and 2009 first halves, our paid capital expenditures in lease prepayments were RMB6.8 million, RMB22.6 million, RMB68.4 million, RMB9.6 million and RMB51.0 million, respectively. Our capital expenditures payable for the relevant years/periods are RMB6.8 million, RMB21.6 million, RMB199.3 million, RMB76.9 million and nil, respectively. Although we did not acquire any forests in the first half of 2009 and therefore no capital expenditure was incurred in lease prepayments, the lease prepayments for the land use rights in connection with our prior forest acquisitions were not fully settled and we paid RMB51.0 million of lease prepayments during this period for the land use rights in connection with our forest acquisitions in prior years. For the 2006, 2007 and 2008 financial years, and the 2008 and 2009 first halves, our paid capital expenditures in plantation assets were RMB29.2 million, RMB97.6 million, RMB269.8 million, RMB38.4 million and RMB203.9 million, respectively. Our capital expenditures payable for the relevant years/periods were RMB29.2 million, RMB93.6 million, RMB715.0 million, RMB307.8 million and RMB0.5 million, respectively. Although we did not acquire any forests in the first half of 2009 and therefore minimal capital expenditure was incurred in plantation assets, the consideration for our Yunnan forest acquisitions in 2008 was not fully settled and we paid RMB203.9 million during this period in connection with our acquisitions of Yunnan Shuangjiang/Luxi Forest and Yunnan Wenshan Forest. We estimate planned capital expenditures and investments of approximately RMB930.8 million for the six months ending 31 December 2009 and RMB872 million for the financial year ending 31 December 2010.

Directors’ confirmation regarding sufficiency of working capital

The main capital commitment of the Group is to pay for the unsettled balances of the purchase price for the acquisitions of the Yunnan Wenshan Forest. The present value of the total consideration for this acquisition is approximately RMB551.6 million. As at the Latest Practicable Date, the unpaid consideration of Yunnan Wenshan forest amounted to approximately RMB[103.41] million which will be settled with the Group’s internal resources. In addition, we have budgeted RMB35.8 million to upgrade our management and information system and to improve our overall operation, and RMB3 million for research and development. The cash generated from operating activities will be mainly used for our forest acquisition.

Our Directors have reached the conclusion that our working capital will be sufficient for our present requirements on the basis that our historical working capital levels have proved to be sufficient for the operations of our Company over the Track Record Period.

CAPITAL MANAGEMENT

When managing our capital structure, our primary objectives are to safeguard our ability to sustain as a going concern so that we can continue to provide returns for our Shareholders and benefits for other stakeholders that have interests in the Group, by pricing products and services commensurately with the level of risks and by securing access to financial resources at a reasonable cost. We actively and regularly review and manage our capital structure to maintain a balance between higher returns for our Shareholders that may be achieved by higher level of borrowings and the advantage, liquidity and security afforded by a sound capital position. We also make adjustments to our capital structure in light of changes in the economic conditions. As at [the Latest Practicable Date], we are not subject to any externally imposed capital requirements.

CERTAIN BALANCE SHEET ITEMS

Total current liabilities position

We have not applied for any third party financing from banks and do not have any outstanding debt for the Track Record Period. Our total current liabilities consist solely of our other payables. We have no trade payables because we do not have any suppliers. Thus, our other payables consists solely of other payables and accrued expenses, receipts in advance, and payable for forest acquisition. Our Directors are of the view that our financial position is sound and therefore we do not expect any difficulties in obtaining loans from banks should we decide to do so.

Other payables and accrued expenses consist of our mandatory contributions to staff welfare expenses on behalf of our employees, salary, VAT and other miscellaneous payables.

During the Track Record Period, Beijing Zhaolin, our predecessor entity, benefited from a preferential rate of 4% VAT which was set by the local tax authorities. The below table sets forth the line items of other payables and accrued expenses for the periods indicated:

	Financial year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
	(RMB)			
Salary payable	198,369	224,519	492,570	651,644
Provision for bonus	—	—	2,142,120	—
Staff welfare expenses	746,993	337,465	—	—
Provision of Social Security	459,890	769,602	315,010	758,761
VAT and levy payables	248,768	726,635	46,380,786	89,991,131
Loan from a director	—	—	6,319,976	7,989,787
Others	662,454	210,852	999,283	16,001,216
	2,316,474	2,269,073	56,649,745	115,392,539

Note:

Subsequent settlement of the VAT and levy payables as at 30 June 2009 up to 30 September 2009 amounted to RMB5,063,479.

Salary payable and provision of social security increased during the Track Record Period because of salary increases, increase in headcount and increase in social security level. Staff welfare expenses decreased between the 2006 and 2007 financial years because accrual for welfare was no longer required as of 1 January 2007, yet the accrued balance can be brought forward and fully utilised, resulting in the decrease. VAT and levy payables increased in line with increased turnover during the Track Record Period and the effect of change in VAT tax rate applied. Salary payable as at 30 June 2009 has been subsequently settled.

Receipts in advance only incurs when a customer pays for a log order and there is sufficient lag time between the payment and delivery of the logs to require such accounting on our balance sheet. During the Track Record Period, we incurred receipts in advance of RMB920,000 only in the 2006 financial year in connection with one such customer order.

Payables for forest acquisition represents consideration to be settled for acquisition of the Yunnan Wenshan Forest which consists of 100,000 hectares in Yunnan Province. The total consideration for this acquisition was RMB551.6 million. As at the Latest Practicable Date, approximately RMB[508.29] million has been paid and the unpaid balance plus interests accrued thereon were approximately RMB[103.41] million which will be fully settled by 31 December 2009 with the Group's internal resources. During the Track Record Period, we incurred payable for forest acquisition of RMB575,888,956 in the 2008 financial year, of which RMB321,053,207 was recognised as non-current liabilities for the same year. And we recognised RMB344,574,295 as payable for forest acquisition for the first half of 2009.

As at 30 June 2009

As at 30 June 2009, we had a total current liabilities position of RMB460 million which consist of other payables and accrued expenses and payable for forest acquisition. The largest contributor to our total current liabilities position for this period is the RMB344.57 million that we owe to sellers in connection with our acquisition of the Yunnan Wenshan Forest in July 2008. Although the land use rights were transferred to us in the 2008 financial year, the purchase price for such assets have not yet been fully paid by us and are expected to be paid in full by end of 2009.

As at 31 December 2008

As at 31 December 2008, we had a total current liabilities position of RMB311.5 million which consist of other payables and accrued expenses and payables for forest acquisition. Other payables and accrued expenses include salary and staff welfare payables, VAT payables and other miscellaneous payables. Payable for forest acquisition represents considerations to be settled for acquisition for our Yunnan forests.

As at 31 December 2006 and 31 December 2007

As at 31 December 2006 and 2007, respectively, we had a total current liabilities position of RMB3.2 million and RMB2.3 million, respectively.

Our total current liabilities position as at 31 December 2006 consist of other payables and accrued expenses, including a large lump sum payment of accrued office rent for our Beijing office, and receipts in advance, representing the amount of prepayment made by the customers for sales of timber logs.

Our total current liabilities position as at 31 December 2007 consist solely of other payables and accrued expenses comprising our mandatory contributions to statutory welfare expenses, salary, and VAT.

Property, plant and equipment

Our property, plant and equipment consist solely of office equipment and other office-related fixed assets for the 2006 and 2007 financial years and, in the 2008 financial year, in addition to office equipment and other office related fixed assets, we added leasehold improvement, motor vehicles and ERP system to our property, plant and equipment with a total net book value of RMB602,918, RMB442,851, RMB6,951,089 respectively, at 31 December 2006, 2007 and 2008. Total net value of our property, plant and equipment was RMB8,791,507 as at 30 June 2009 consisting of our ERP system of RMB7,723,345, motor vehicles of RMB648,544, office equipment of RMB276,082 and furniture and fittings of RMB143,536. We do not hold any property, plant and equipment under any finance leases, nor do we lease our any property, plant and equipment under operating leases. See note 11 of our consolidated financial information for more information.

We have not historically held significant assets under property, plant and equipment because we do not rely on heavy machinery, specialised equipment or large vehicles for timber extraction. Instead, we rely on manual labour and smaller scale equipment, often supplied by the villagers who harvest our logs, as such means are more cost-efficient in the rural areas where our forests are located. Additionally, our customers are responsible for transporting the logs to their final destination, hence we do not need to maintain a fleet of logging vehicles.

Lease prepayments

Lease prepayments are our payments made to acquire land use rights in the PRC, which expire between 2016 and 2072. Under PRC law, we do not own any land. Land use rights are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statements on a straight-line basis over the lease terms. The cost is calculated at 1 January of each financial year and additions are made throughout the year as we acquire new forests and pay for the related land use rights. The cost of the lease prepayments is then calculated again at 31 December of such financial year, and accumulated amortisation is deducted from such cost, to provide the net book value figure for such year as at 31 December or as at 30 June, as applicable. See note 2(g) and (l) and note 12 of our consolidated financial information for more information.

As at 31 December 2006, 2007 and 2008, and at 30 June 2009, our lease prepayments amounted to RMB10.6 million, RMB31.5 million RMB225.8 million and RMB222.0 million, respectively. Lease prepayments increase as our forest acquisitions increase. These payments are determined through negotiations and affected by prevailing market prices for such rights.

Plantation assets

As at the Latest Practicable Date, our plantation assets comprised of the standing timber in our forests in Sichuan and Yunnan, over 90% of which were around 18-60 years old. Our trees in Sichuan and Yunnan are planted on land owned by the individuals or the collectives, for which we hold forestry rights. As at the Latest Practicable Date, we held forestry rights in respect of approximately 171,780 hectares of forests in Yunnan and Sichuan Provinces, which forest rights certificates are for an average term of not less than 20 years.

Plantation assets are stated at fair value less costs to sell. Costs to sell include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market. The value of our plantation assets is the value of the standing timber only and does not include the land value of the forests. The value of our plantation assets are calculated on 1 January of each financial year, and additions are made throughout the year. The value of harvested timber transferred to inventories is then deducted from the figure. The amount of harvested timber transferred to inventories represents the fair value less costs to sell of plantation at harvest date. We determine the fair value of timber at harvest date by referencing the sale price of our logs less estimated cost of sales. Changes in fair value, less costs to sell, are then added to the figure, to produce the final value of our plantation assets as at 31 December of each financial year. See "Factors Affecting Results of Operations — Change in fair value of plantation assets less costs to sell", "Critical Accounting Policies — Fair value of plantation assets less costs to sell" and Note 13 of our consolidated financial information.

At 31 December 2006, 2007 and 2008, and at 30 June 2009 our plantation assets amounted to approximately [4,603 hectares, 12,453 hectares, 171,780 hectares and 171,780 hectares] of forests, respectively. Our plantation assets have increased during the Track Record Period due to new forest acquisitions.

We maintain records of the area of our forests as follows: our forest workers inspect daily the portion of our forests for which they are responsible. After inspection of the forest, they will record the results. Every quarter, they are required to submit a report of tree growth and a report of changes in conditions of the trees to our resources management department. Such reports are subject to the verification and approval of our forest teams. These records set out details of our trees and forests, including number of trees per mu, tree height, forest stock volume per mu, number of trees logged, number of trees replanted, and number of trees which survived after replanting. Such reports are subject to the verification and approval of our forest teams, which will also inspect the forests quarterly, or monthly if necessary. At the end of each year, we also engage an independent forestry valuer to conduct valuation for all our forests.

CFK, our independent valuer, conducted a limited field inspection of our Sichuan and Yunnan forests for valuation purposes as at 31 December 2008. At 31 December 2006, 2007 and 2008 and at 30 June 2009 we had plantation assets of RMB566.9 million, RMB1,338.2 million, RMB7,693.0 million and RMB7,914.0 million, respectively.

Our plantation assets increased by RMB221 million, or approximately 2.9%, from RMB7,693 million as at 31 December 2008 to RMB7,914 million as at 30 June 2009, primarily due to the increased value resulted from the physical growth of our forests.

Our plantation assets increased by RMB6,354.8 million, or approximately 474.9%, from [RMB1,338.2 million] as at 31 December 2007 to RMB7,693.0 million as at 31 December 2008, primarily [because of our acquisition of the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest during the 2008 financial year worth in the aggregate [RMB6,739.3] million, offset in part by harvested timber transferred to inventories of RMB384.5 million. On 12 May 2008 and 30 August 2008, respectively, an earthquake occurred in Sichuan, where 12,447 hectares of our forests are located. We believe that our forests are not close to the epicentre and there was no material damage to our forests based on the visits performed by our management. The independent valuer, CFK visited part of the Group's forests in mid July 2008 to assess the impact of earthquake to the forests and reported that no damage of the forests and roads observed. In addition, the local forestry authorities have confirmed in writing to us that there were no significant damages. Based on the above, we believe that the impact resulted from such earthquake is insignificant to our operation and financial position.

Our plantation assets increased by RMB771.3 million, or approximately 136.1%, from RMB566.9 million at 31 December 2006 to RMB1,338.2 million at 31 December 2007 due to additions of plantation assets worth RMB93.6 million primarily from acquiring new forests in Sichuan, offset by harvested timber transferred to inventories of RMB120.8 million. See note 13 of our consolidated financial information.

Trade and Other Receivables

We do not have any trade receivables or trade debtors because our sales are not made on credit terms. Our other receivables consist solely of prepayments and deposits relating to prepayments of insurance in respect of the following financial year or period, prepayments of office rent and prepayments of Forest Maintenance Fees.

The below table sets forth the breakdown of our other receivables during the Track Record Period:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
		(RMB)		
Other receivables	1	—	225,022	337,685
Prepaid insurance premium	4,163,247	15,362,199	21,324,175	17,552,699
Other prepayments and deposits	2,074,841	5,967,777	16,031,114	40,722,000
	6,238,089	21,329,976	37,580,311	58,612,384

At 31 December 2006, 2007 and 2008, and at 30 June 2009, we had other receivables of RMB6.2 million, RMB21.3 million, RMB37.6 million and RMB58.6 million, respectively.

Our other receivables of RMB58.6 million [as at 30 June 2009] consist mainly of other prepayments and deposits of RMB40,722,000, including prepaid logging costs.

Our other receivables increased by RMB16.3 million, or approximately 76.5%, from RMB21.3 million as at 31 December 2007 to RMB37.6 million as at 31 December 2008, due to a significant increase in prepayments of insurance premium in connection with our Yunnan forest acquisitions in the 2008 financial year.

Our other receivables increased by RMB15.1 million, or approximately 243.5%, from RMB6.2 million at 31 December 2006 to RMB21.3 million at 31 December 2007, due in part to a RMB5 million deposit we had to make on an acquisition of new forests in Yunnan of 8,667 hectares, and due generally to an increase in prepayments of forest insurance and Forest Maintenance Fees in connection with new forest acquisitions.

We entered into a number of insurance policies for our plantation assets and these policies typically run for a period of 1 year to 4 years. The amounts of our prepaid insurance premium expected to be expensed after more than one year are RMB3,564,520, RMB11,768,685, RMB8,556,326 and RMB6,078,971 at 31 December 2006, 2007, 2008 and 30 June 2009. The prepaid insurance premium is amortised on a systematic basis over the insurance term.

Inventories

We do not typically keep a large standing inventory of logs because we do not harvest logs until a customer has placed an order. Once logs are harvested, they are brought to a roadside collection point for the customer to pick up and transport, at customer's cost, to the ultimate destination. We do not typically harvest excess logs and store them in anticipation of a customer order. The inventory on our balance sheet reflects logs that are only briefly in our possession. On average, it takes us two weeks to obtain a logging permit. From logging to delivery usually takes 3 days. Customers generally pick up their logs within 7 days of delivery day.

Although our harvesting and turnover have increased each year during the last three financial years, our total inventory balances, excluding the 2009 first half, show a pattern of consecutive decline due to the improvement in our management and inventory control system. The reason for the significant increase in inventory in the 2009 first half is that we harvested more logs in June in anticipation of the rainy season in Sichuan, namely from July to September, during which period, for safety concerns, we undertake no harvesting activity in Sichuan. Our resources management department conducts inventory count at the end of each year. Other than regular reviews by our resources management department of forestry records (including records of inventory) prepared by our forest workers, we also require our finance department to cross check its own records of inventory against those prepared by our resources management department. We maintained detailed records of inventory movements (namely the timber harvested and sold) during the Track Record Period. Our inventory of logs was RMB684,176, RMB346,409 and RMB nil for the financial years 2006 2007 and 2008 respectively and RMB20,407,485 for the 2009 first half. None of our inventory was ever damaged or written off during the Track Record Period except for a write off of RMB12,547 for the inventories in 2008 financial year. All inventories as at 30 June 2009 were subsequently sold.

The below table shows the movement of inventories during the periods indicated.

	Financial year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
			RMB	
At 1 January	965,689	684,176	346,409	—
Harvested timber transferred from plantation assets	54,664,587	120,778,833	384,519,909	298,357,270
Reversal of fair value of plantation assets upon logging	(54,946,100)	(121,116,600)	(384,853,771)	(277,949,785)
Write off of inventories	—	—	(12,547)	—
At 31 December/30 June	684,176	346,409	—	20,407,485

Cash and cash equivalents

Our cash and cash equivalents consist solely of cash deposits in the bank from customer payments which are held in an interest-bearing savings account.

Our cash and cash equivalents increased by RMB132.9 million, or approximately 53.4%, from RMB249.1 million as at 30 June 2008 to RMB382.0 million as at 30 June 2009, due largely to the cash infusion from the second round investment made by the Carlyle Funds and the Partners Group Funds.

Our cash and cash equivalents increased by RMB103.5 million, or approximately 10,350.0%, from RMB1.0 million as at 31 December 2007 to RMB104.5 million as at 31 December 2008, due largely to a cash infusion from the Carlyle Funds of US$35 million in the 2008 financial year offset in part by acquisition costs of new forests.

Our cash and cash equivalents decreased by RMB24.0 million, or approximately 96.0%, from RMB25.0 million at 31 December 2006 to RMB1.0 million at 31 December 2007, due to the large number of new forests we purchased that year with cash.

Other Payables

We do not have any trade payables because we do not have any suppliers. We do not purchase fuel, equipment or raw materials in our business because we are not responsible for transporting our logs, and all harvesting equipment is provided by and belongs to the villagers who harvest our logs under the harvest agreements we enter into with each village. Our other payables consist solely of other payables and accrued expenses, and receipts in advance. All of our other payables and accrued expenses are due within 1 month or on demand. Our other payables constitute all of our total current liabilities. See "Total current liabilities" above and Note 17 of our consolidated financial information for further information about these line items.

At 31 December 2006, 2007 and 2008, and at 30 June 2009, we had other payables of RMB3.2 million, RMB2.3 million, RMB632.5 million, and RMB460 million, respectively.

Reserves

We are required by PRC law to maintain certain statutory reserves. For example, we are required to appropriate 10% of our net profit under PRC GAAP to the statutory surplus reserve until the balance reaches 50% of our registered capital. Additionally, we were required to appropriate between 5% to 10% of our net profit under PRC GAAP to the statutory public welfare fund. This requirement expired on 1 January 2006, thus we transferred the balance in the statutory public welfare fund to our statutory surplus reserve fund. See Note 19 of our consolidated financial information for more information.

INDEBTEDNESS

Borrowings

Our Group has no outstanding indebtedness during the Track Record Period. As at [●], being the latest practicable date for determining our indebtedness, we had [no] outstanding indebtedness or banking facilities. We have entered into a non-binding credit facility agreement with Shenzhen Development Bank which has agreed, in principle, to grant us a credit line of not more than RMB1,000 million for 3 years from 2 September 2008 to 1 September 2011, subject to conclusion of credit facilities agreement(s). Pursuant to this agreement, during the credit facility period, the credit facility may be revolved and can be provided in the form of a loan, trade financing, guarantee, letter of credit, bill exchange, overdraft, etc. The terms (including the amount, method and period) of each drawdown of the credit line will be agreed by the parties, provided that the total credit amount does not exceed RMB1,000 million. Our PRC legal advisers have advised that this non-binding agreement is not legally enforceable. We will enter into binding credit facilities agreement(s) with the bank on specific terms when we apply for credit facilities but this would be subject to the bank's final agreement at that time.

Net current assets

The following table sets forth our current assets, current liabilities and net current assets as at 30 June 2009:

	As at	
	30 June 2009	31 August 2009
	RMB in millions	RMB in millions
Current assets		
Inventories - timber logs	20.4	—
Other receivables	58.6	57.8
Cash and cash equivalents	382.0	351.6
Total current assets	461.0	409.4
Current liabilities		
Other payables	(460.0)	(328.3)
Total current liabilities	(460.0)	(328.3)
Net current assets	1.0	81.1

The “other payables” were primarily the payable for forest acquisition, being the amount of purchase price that we still owe for forests which we already own, amounted to approximately RMB344.57 million as at 30 June 2009.

Contractual obligations

Our contractual obligations consist of capital commitments for new forest acquisitions (as discussed in more details below), as well as future minimum lease payments payable under non-cancellable operating leases for our Beijing office.

The following tables sets forth our capital commitments for new forest acquisitions as at 31 December 2006, 2007 and 2008 and 30 June 2009.

	Financial year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
			(RMB)	
Authorised and contracted for:				
— acquisition of forests	—	91,000,000	—	—
— acquisition of fixed assets	—	—	3,776,925	2,275,385
	—	91,000,000	3,776,925	2,275,385
Authorised but not contracted for:				
— acquisition of forests	—	532,000,000	—	1,400,000,000
— acquisition of fixed assets	—	—	32,001,270	32,001,270
— other projects				
— consultancy fees	—	—	15,000,000	15,000,000
— research centre	—	—	3,000,000	3,000,000
— Sichuan saplings centre	—	—	6,000,000	6,000,000
— Yunnan saplings centre	—	—	6,000,000	6,000,000
	—	532,000,000	62,001,270	1,462,001,270

Our “authorised and contracted for” capital commitment represents those forest acquisitions which have been approved by the Company and a pre-acquisition agreement has been signed by the Company, but such forestry rights have not yet been transferred to the Company. Our “authorised and not contracted for” capital commitment represents those forest acquisitions which have been approved by the Company, but which no pre-acquisition agreement has been signed by the Company. The term “capital commitment”, as used herein, does not refer to the amount we have committed to pay for a new forest acquisition. If we signed a forestry right transfer agreement and have acquired those forestry rights, then any unpaid portion of the purchase price under such agreement will appear as “payable for forest acquisition” under “other payables” on our balance sheet. As at 30 June 2009, we had RMB344.8 million of payables for forest acquisitions. See “Financial Information — Certain balance sheet items — Total current liabilities position” for further information.

As at 31 December 2007, we authorised and contracted for RMB91.0 million of capital commitment, and we authorised but have not yet contracted for RMB532.0 million of capital commitment, both in connection with our acquisition of the Yunnan Luxi/Shuangjiang Forest in March 2008. As at 31 December 2008, we authorised and contracted for RMB3.8 million of capital commitment, and we authorised but have not yet contracted for RMB32 million of capital commitment, both in connection with acquisition of fixed assets. We also authorised but have not yet contracted for RMB30 million of capital commitment in connection with other projects. Of this RMB30 million capital commitment, RMB6 million is earmarked for the construction of the Sichuan saplings centre and the same amount is also earmarked for the construction of the Yunnan saplings centre, both of which are expected to commence construction in the second half of 2010. These sapling centres are expected to be used for growing the seeds into saplings before subsequently planting the same in the forests. The aforesaid aggregate capital expenditure of RMB12 million are expected to be incurred at the time of construction of such sapling centres in the second half of 2010. In relation to the consultancy fees, this relates to the consultancy agreement entered into in April 2008 for the purpose of obtaining advice in relation to potential acquisition of forests and compliance with forestry laws. As for the research centre, such capital commitments relate to the Group's initial authorised commitment to establish the research centre together with Beijing Forestry University by end of 2010 for the research and development on the prediction and monitoring of the growth of trees planted in forests. Aside from these amounts as at 31 December 2007 and 2008 we have made no capital commitments as at each balance sheet date during the Track Record Period. As at 30 June 2009 and [●] (being the latest practicable date for determining our indebtedness), we had authorised and contracted for capital commitment of RMB2.3 million, and we had RMB1,462 million authorised but not yet contracted for capital commitment. A total of RMB1,400 million out of this amount as at 30 June 2009 was related to our proposed acquisition of forests in Ning Lang Xian.

Our future minimum lease payments payable under non-cancellable operating leases are for our Beijing and Hong Kong offices. The following table sets forth our future minimum lease payments payable under non-cancellable operating leases for the dates indicated.

	As at 31 December			As at 30 June
	2006	2007	2008	2009
			(RMB)	RMB
Within 1 year	2,705,076	1,328,266	1,481,622	1,496,778
After 1 year but within 5 years	338,135	—	1,310,725	639,556
	3,043,211	1,328,266	2,792,347	2,136,334

We are the lessee in respect of a number of properties held under operating leases. The majority of these properties are for our office use. These leases typically run for an initial period of one to three years, with no option to renew the leases. None of the leases includes contingent rentals.

Contingent liabilities and off-balance sheet arrangements

Contingent liabilities may arise in the ordinary course of our business primarily from the bringing of legal proceedings and claims and from the adoption of new environmental regulations. We are not involved in any legal proceedings. However, we can provide no assurance that legal proceedings will not be initiated against us in the future. The amounts of contingent liabilities arising from litigation may be difficult to quantify.

In addition, we may also become subject to new environmental laws and regulations that may impose contingencies upon us in the future. Such laws and regulations may impose significant costs, expenses and liabilities in the future. As at 31 December 2006, 2007, 2008 and 30 June 2009, we are not aware of any environmental liabilities. See "Risk Factors — Risks Relating to our Business — Our forests are in China and are subject to significant PRC regulations".

We are required to replant at least 100% of our trees after we harvest them. During the Track Record Period, the saplings for replanting were provided by local forestry bureaus free of charge, but should these authorities stop supplying us with saplings, or decide to charge for them, we would have to incur costs in purchasing such saplings.

As at [●], being the latest practicable date for determining our indebtedness, we [did not have] any off-balance sheet arrangement or any contingent liabilities.

As at [●], we [did not have] any outstanding loan capital, bank overdrafts, and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

For the 2006, 2007 and 2008 financial years, and for the 2008 and 2009 first halves, we incurred capital expenditures in lease prepayments of RMB6.8 million, RMB21.6 million, RMB199.3 million, RMB76.9 million and nil, respectively. Additionally, for the 2006, 2007 and 2008 financial years, and for the 2008 and 2009 first halves, we incurred capital expenditures in plantation assets of RMB29.2 million, RMB93.6 million, RMB715.0 million, RMB307.8 million and RMB0.5 million, respectively.

Capital expenditures in lease prepayments principally relate to the payments we make to acquire land use rights in connection with new forest acquisition. Capital expenditures in plantation assets consist of acquisition costs of new forests less land value of such forests. During the Track Record Period, capital expenditures were divided into lease prepayments and plantation assets at the date of acquisition based on valuation reports. Our PRC valuer, Greater China Appraisal Limited, divided the purchase price of our forests into the cost of the land use right (or lease prepayments) and plantation assets, in accordance with IAS 41 paragraph 25. Other than new forest acquisitions, our business is not capital intensive and does not require us to invest in heavy machinery, vehicles, or industrial equipment. Hence, we do not have a capital expenditure budget for acquiring such assets.

The following table shows our current estimate of planned capital expenditures and investments for the six months ending 31 December 2009 and for the financial year ending 31 December 2010.

	1 July - 31 December 2009	1 January - 31 December 2010
	(RMB in million)	
Planned capital expenditures in lease prepayments	185.4	168
Planned capital expenditures in plantation assets	741.6	672
Planned capital expenditures in improving management information system	3.8	32
Total	930.8	872

Our current plans with respect to future capital expenditures is subject to change based on the evolution of our business plans, including potential acquisitions, the progress of our capital projects, market conditions, our outlook on future business conditions. See "Future Plans and Use of Proceeds". Other than as required by law, we do not undertake any obligation to publish updates on our capital expenditure plans. There is no guarantee that any of the planned capital expenditures outlined above will proceed as planned. As we continue to expand, we may incur additional capital expenditures. In the future, we may consider additional debt or equity financing, depending on market conditions, our financial performance and other relevant factors. We cannot assure you that we will be able to raise additional capital, should that become necessary, on terms acceptable to us.

RISK MANAGEMENT

We are exposed to specific risks in the conduct of our business and the business environment in which we operate. While our exposure to interest rate, foreign exchange, or customer credit risk is minimal, we are subject to price, liquidity, cash flow and working capital risks and natural risks arising in the regular course of our business. Generally, our overall objective is to ensure that we understand, measure and monitor our risks and take appropriate actions to minimize our exposure to such risks. Our policies for managing each of these risks are described below.

Price risk

We are exposed to fluctuations in timber prices, which are dictated by demand and supply cycles of the timber industry. Timber price movements may significantly impact our earnings, cash flows, as well as the value of our plantation assets. During the Track Record Period, we did not experience any notable price fluctuations. Based on our review of price trends in the past, we believe that log prices will continue to rise due to demand in the PRC for logs and the decrease in imported logs. We manage price risk by monitoring publicly available information about PRC log prices, in tandem with our other risk management policies as described below.

Liquidity, cash flow and working capital risk

We have adopted liquidity risk management practices to maintain sufficient cash flow, working capital and cash and liquid financial assets for our operations. During the Track Record Period, we have maintained a relatively conservative approach to maintaining liquidity by funding our operations solely with cash from our operations, requiring our customers to pay in full upfront for their log orders, and incurring no trade receivable. The cash from our operations is deposited in interest-bearing savings accounts rather than investing them in risk-bearing instruments.

At the beginning of each financial year, our management meets to make budget projections for the following year and consider to set forest acquisition targets depending on cashflow from our operations. Our budget projections are reviewed periodically by our management and our acquisitions activity will be adjusted accordingly. If we have a liquidity problem, we may elect to reduce our forest acquisitions for the year and ramp up our harvesting of existing forest resources. We believe we can increase our turnover without much difficulty by ramping up harvesting at any time because we have sufficient forest resources, our customers' demand for logs usually exceeds our ability to supply them, and forest harvest workers are usually available in the regions where we operate. The only significant impediment to our ability to ramp up harvest is having to undergo the administrative process for obtaining logging permits, which adds to our response time.

The Directors of our company have carried out a detailed review of the cash flow forecast of the Group for the eighteen months ending 31 December 2010. Based on such forecast, the Directors have determined that adequate liquidity exists to finance the working capital and capital expenditure requirements of the Group during that period. The Directors believe that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, as with all assumptions in regard to future events, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

As a fundamental risk management measure, we minimise our exposure to interest rate risk and customer credit risks by avoiding activities that carry such risks, as described below. Further, since our sales are entirely within the PRC, we are not exposed to foreign currency exchange risks.

Natural risk

Our revenue depends on our ability to harvest timber at adequate levels and to meet customer orders. Thus, we are exposed to external factors, whether man-made or natural, that may damage our forestry resources or impede our access to them, such as weather conditions, natural disasters, pests and environmental pollution. We address natural risks by purchasing forest insurance upon acquiring any new forests. All of our forests are currently covered by forest insurance. The sum insured in respect of our forests as at 31 December 2006, 2007 and 2008 and 30 June 2009 were approximately RMB296.6 million, RMB948.3 million, RMB11,678.8 million and RMB11,465.9 million respectively. As at the Latest Practicable Date, our forest insurance for our Sichuan and Yunnan forests will cover up to an aggregate of approximately RMB[●] million in damages. The sum insured in respect of our forests is determined on the basis of assigning a value of RMB3,000 per mu (approximately RMB45,000 per hectare) for one-year insurance policy, and is arrived on an arm's length basis after taking into account the likelihood of damage, tree species, and tree value. Although as at the Latest Practicable Date, [all] of our forests were covered by forest insurance, the occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting, or otherwise impede the our logging operations or the growth of the trees in our forests.

Interest rate risk

To reduce our exposure to interest rate and other risks, we have not relied on commercial lending or other forms of internal or external loans to fund our operations. Instead, we fund our activities solely through cash flow from operations. See "Financial Information — Liquidity and Capital Resources" for further information regarding our liquidity, cash flow and working capital. Currently, our Group has not borrowed, or applied to borrow, any loans from banks or other parties, nor have we invested in any interest-bearing securities except that we deposit excess cash and cash equivalents at bank to earn short term market interest rates. Our interest rate risk is thus minimal.

Foreign exchange risk

At present, all of our sales are denominated in Renminbi. Some of our assets and liabilities were denominated in foreign currencies and we did not engage in any hedging measures against currency risk. During the Track Record Period, all our revenue and the majority of our costs incurred were denominated in RMB. As at 31 December of 2006 and 2007, there were no assets and liabilities which were denominated in a foreign currency. Our assets denominated in foreign currency consisted of US$8,628,307 and HK$7,941,641 as at 31 December 2008 and US$49,127,746 and HK$29,772,212 as at 30 June 2009, and our liabilities denominated in foreign currency consisted of US$7,688 and HK$7,862,461 as at 31 December 2008 and US$151,467 and HK$24,101,002 as at 30 June 2009. Our cash in foreign currency consisted of US$8,498,907 and HK$21,948 as at 31 December 2008 and US$48,619,023 and HK$45,346 as at 30 June 2009. Although none of our sales are denominated in currency other than Renminbi, we had a foreign exchange loss for the first time during our Track Record Period, in the 2008 financial year, as a result of the US$35 million investment from the Carlyle Funds in 2008. Because the cash infusion was in US dollars, and because of the gain in the US Dollar against the Renminbi between the date the cash was received in our bank account and 31 December 2008, we had a foreign exchange loss of RMB3.05 million for the 2008 financial year. See note 22(c) for details of our exposure. However, because all of our sales are denominated in Renminbi, we believe that our exposure to foreign exchange risks from sales transactions is insignificant.

Customer credit risk

Our sales are not made on credit terms, thus our customer credit risk is insignificant. Our customers pay for the entire order upfront prior to our delivery of their ordered logs to them. In the future, as our business operations increase in complexity, we may offer extended credit periods to certain customers if needed. If we do so, we will then set appropriate credit limits and terms for our customers after credit evaluations have been performed on a case by case basis.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

Greater China Appraisal Limited, an independent property valuer, has valued our property interests as at 30 September 2009. The text of the letter, summary of valuation and the valuation certificates are set out in Appendix IV to this document.

The statement below shows the reconciliation of lease prepayments from the audited consolidated financial statements as at 30 June 2009 to the valuation as at 30 September 2009 set out in Appendix IV to this document.

	RMB
Net book value of the following properties as at 30 June 2009 as set in Appendix I to this document – Lease prepayment	221,965,543
Less: Amortisation of lease prepayments for the three months ended [30 September] 2009	(1,930,618)
Add: Additions during the period from [1 July 2009] to [30 September] 2009	—
Net book value as at [30 September] 2009	220,034,925
Valuation surplus	[●]
Valuation of properties as at [30 September] 2009 subject to valuation as set out in Appendix IV to this document	[860,340,000]

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

Our Directors forecast that, on the bases and assumptions set out in Appendix III — "Profit Forecast", and in the absence of unforeseen circumstances, our consolidated profit attributable to the equity holders of our Company in accordance with IFRS for the year ending 31 December 2009 is unlikely to be less than RMB[508.9] million. The profit forecast has been prepared by our Directors based on the audited consolidated results of the Group for the six months ended 30 June 2009 and a forecast of the consolidated results of the Group for the remaining six months ending 31 December 2009.

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. 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 31 December 2009. [The forecast fair value of the Group's plantation assets as at 31 December 2009 is valued by CFK (including the underlying assumptions).] The extent of any revaluation gain or loss for the year ending 31 December 2009 is dependent on market conditions and other factors that are beyond our control.

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 RMB656 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

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

	Sichuan	Yunnan Luxi	Yunnan Wenshan
Log price (RMB/m³)			
● 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/m³)	226	273	273
● Harvesting and sales costs (RMB/m³)	63	53	60
Total yield estimate (m³) *(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:

RMB million	5.0% decrease	5.0% increase
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 assumption 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.

See "Summary — Profit Forecast for the Year Ending 31 December 2009" for a brief summary of certain information presented in such profit forecast.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Dividend policy

No dividend has been paid or declared by any entity within the Group since its incorporation. We have historically not distributed any dividends as part of our liquidity risk management strategy. Our Shareholders will be entitled to receive dividends, if any are declared by our Company. 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.

Subject to the factors described above, 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.

Distributable reserves

For the three financial years ended 31 December 2006, 31 December 2007, and 31 December 2008, and for the six months ended 30 June 2009, we had an aggregate amount of distributable reserves of RMB580.1 million, RMB1,363.8 million, RMB7,176 million and RMB7,888.2 million, respectively, attributable to the companies comprising our Group. See Note 19 of our consolidated financial information. The Group is required to appropriate 10% of its net profit, as determined under the PRC GAAP, to the statutory surplus reserve until the balance reaches 50% of the registered capital. Subject to the approval of shareholders, statutory surplus reserve may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before such capitalisation. The statutory surplus reserve requirements applicable to the Group are set forth in note 19(c) of our consolidated financial statements. The relatively significant increase in the distributable reserves in the 2008 financial year was attributable to the increase in the statutory surplus reserve and the additional reserves applicable for the first time during our Track Record Period for the year ended 31 December 2008, which are the share premium and the capital reserve as more particularly described in note 19(b) and (e), respectively, of our consolidated financial statements, while being partially offset by the negative exchange reserve described in note 19(f) of our consolidated financial statements.

At 31 December 2008 and 30 June 2009, the aggregate amount of distributable reserves of the Company is RMB150,551,427 and RMB429,345,277 respectively. Please refer to note 24(iii) of the Accountants' Report for details.

RECENT DEVELOPMENTS

Our forests have been affected by earthquakes in Sichuan in 2008 and Yunnan in 2009. Our management believes that our assets and operations have not been materially affected as a result of the earthquake in August 2009.

Ultra Big has made contributions to the remaining outstanding registered capital of Kunming Ultra Big in the amount of US$28,000,000 on [●] September 2009, and a further RMB137.91 million was paid by the Group in August 2009 in respect of the acquisition of the Yunnan Wenshan Forest.

In respect of Ning Lang Xian, 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 assist the Group to acquire 800,000 mu (approximately 53,000 hectares) of forests at a price no more than RMB600 per mu. During the period of this framework agreement (i.e. 30 years from the date of this agreement), the people's government of Ning Lang Xian shall not approve other forestry companies to acquire forests in Ning Lang Xian. 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. Based on the due diligence carried out by the Group, forestry teams of the Group collected some sample data. The forest type is natural forest and is approximately 53,000 hectares with an estimated stock volume of about 9,565,000 cubic metres. The tree type in this forest includes, amongst others, Yunnan pine, cold spruce, high pinus Montana, oak tree and larch. The aforesaid data is not part of any formalised valuation and represents the Group's findings on due diligence. Depending on the negotiations with the local forest workers, the Group expects to complete its acquisition of the 800,000 mu forest by 30 June 2010.

Having taken into account our business position as set out below, our Directors confirm that there has been no material adverse change in our financial or trading position or prospects or our subsidiaries since 30 June 2009, being the date of our latest audited consolidated financial statements.

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 in the second half of 2009. Because our products are used in a wide variety of industries (construction, furniture, interior decoration, wood product and paper) in China, this diversification reduces our risk relating to a downturn in a particular industry. We have already set our log prices for 2009 with certain long-term customers, which prices were generally lower than those in 2008. [KPMG to confirm]. However, such decreases in log prices were offset by increases in volume of logs sold. In light of the foregoing, as at the Latest Practicable Date, the Directors do not anticipate revenue to be significantly affected by the effects of the global financial crisis.