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Web Proof Information Pack of



CHINA FORESTRY HOLDINGS CO., LTD.
中國森林控股有限公司

(Incorporated in the Cayman Islands with limited liability)

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YOU SHOULD READ THE SECTION HEADED “WARNING” ON THE COVER OF THIS INFORMATION PACK.

SUMMARY

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

OVERVIEW

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

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

Our Unrealised Gains from Fair Value Change

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

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

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

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

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

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

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

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

Our forests

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

Our total forest area increased at a CAGR of approximately 510.9% between 2006 and 2008. Our total forest area as at 31 December 2006, 2007 and 2008 and 30 June 2009 was approximately 4,603 hectares, 12,453 hectares, 171,780 hectares, 171,780 hectares respectively, and our total forest stock volume as at the corresponding dates was approximately 1.2 million m³, 3.4 million m³, 35.5 million m³ and 35.5 million m³, respectively.

In March 2008, we acquired the Yunnan Luxi/Shuangjiang Forest in Yunnan. It was the first time we acquired forests in Yunnan. This forest includes both naturally regenerated and plantation forests and has an area of approximately 59,333 hectares and a forest stock volume of approximately 13.7 million m³ based on an assessment as at 30 June 2009. The total consideration for this acquisition was approximately RMB362.5 million and has been fully settled. In order to expand our forest reserve further, in July 2008, we also acquired the Yunnan Wenshan Forest in Yunnan. This forest consists of plantation forests of approximately 100,000 hectares and has a forest stock volume of approximately 19.6 million m³, based on an assessment as at 30 June 2009. Unlike the other forests of the Group, we have not yet commenced harvesting activities in the Yunnan Wenshan Forest, and therefore there is no revenue generated pursuant to the harvesting and sales of logs from this forest. However, the fair value gain at the time of acquisition and the relevant fair value changes over the Track Record Period after the acquisition would not be affected by the harvesting activities, and the acquisitions of both Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest contributed to the Group's profits during the Track Record Period due to their fair value gains on acquisition and their relevant fair value changes over the Track Record Period after such acquisitions. Currently the Group expects to commence harvesting of the Yunnan Wenshan Forest in 2011. Both forests in Yunnan are considered high quality in that the forest stock volume per hectare is substantially higher than the PRC national average in 2007. The present value of the total consideration for the acquisition of the Yunnan Wenshan Forest was RMB551.6 million. As at the Latest Practicable Date, the unpaid consideration of Yunnan Wenshan forest amounted to approximately RMB[103.41] million and will be settled with the Group's internal resources. Although the total purchase price for the Yunnan Wenshan Forest has not been fully settled, its forestry rights have already been transferred to us and we have already obtained its relevant forestry right certificates. Therefore we now own the forest trees and the usage rights of the forest trees and forest land, in respect of both the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest.

As a result of the above acquisitions, as at 30 June 2009, our forest area was 171,780 hectares, with forest stock volume of around [35.5] million m³ (based on an assessment as at 30 June 2009). For each of our Sichuan Forest, the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest, we have achieved an average wood yield (in terms of forest stock

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volume per hectare) of approximately 174.4 m³ per hectare, 231.6 m³ per hectare and 196.3 m³ per hectare respectively, as at 30 June 2009. According to the China Forestry Statistical Yearbook 2007, the PRC national average wood yield in 2007 was only approximately 71 m³ per hectare. In future, we will continue to seek opportunities to acquire other high quality forests in China. With the expansion in our forest reserves, we believe our sales and profitability will grow.

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

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

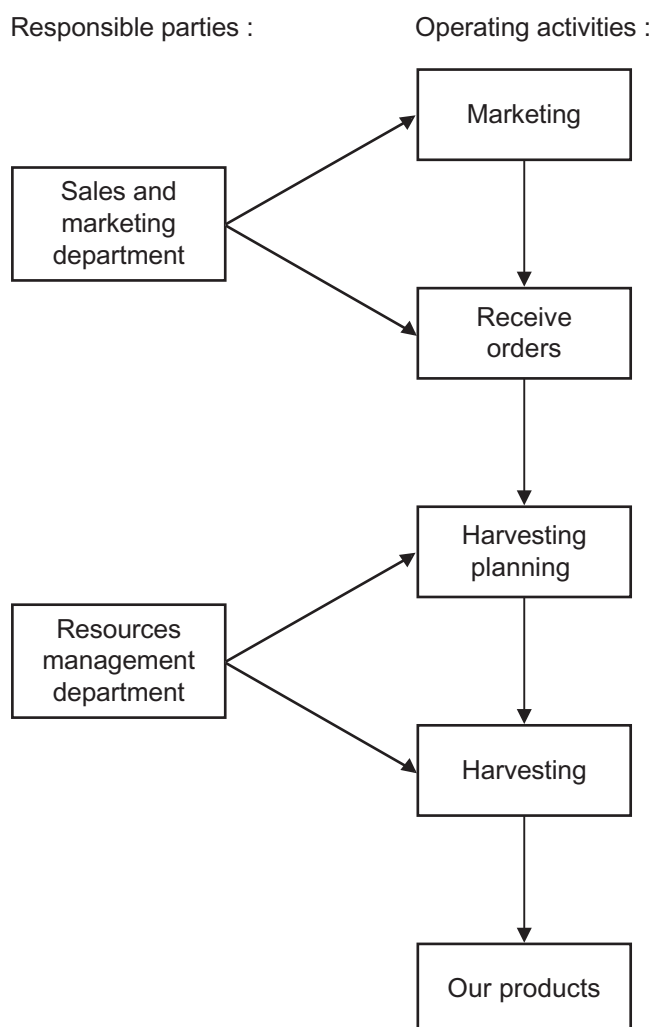
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Our operations

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

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

The following diagram shows a summary of our operations.



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

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decreased as a percentage of total sales when we began operating our Yunnan Luxi/ Shuangjiang Forest in May 2008. This forest includes Yunnan pine, beech and birch in addition to Chinese fir. For each of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our log sales volume was approximately 76,200 m³, 169,800 m³, 520,407 m³ and 321,930 m³, respectively, which represented a CAGR of approximately 161.3% between 2006 and 2008. The Group's operating performance after 30 June 2009 is generally in line with its performance during the six months ended 30 June 2009. During the quarter ended 30 September 2009, harvested volume of the Group amounted to 117,480 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 (m ³)	53,655	50,760

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

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

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

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

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

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

Our Environmental Controls

Our policy

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

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

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

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

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

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

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

Governmental controls on environment

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

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

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

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

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

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

Our compliance

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

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

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

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

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

<u>Year</u>	<u>Actual logging amount (m³)</u>	<u>Maximum amount permitted under logging permits (m³)</u>
2006	75,909	77,034
2007	169,329	169,329
2008	519,928	519,928
2009 (up to 30 June 2009)	356,730	356,730

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

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

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

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

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

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

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

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

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

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

Our chairman

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

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Our investors

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

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

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

Our customers

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

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

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

Sichuan Earthquake and Yunnan Earthquake

On 12 May 2008, an earthquake with a magnitude 8.0 on the Richter scale hit Sichuan, killing tens of thousands of people and causing severe physical damage and following which, there were various aftershocks from the earthquake. We conducted a comprehensive inspection of our forests from 13 May to 23 May 2008 to assess the impact of the earthquake on our Sichuan forests, which are located in Ya An City, Le Shan City and Liang Shan Zhou and are approximately 183, 189.5 and 377.7 kilometres, respectively, from the epicentre of the earthquake. Our forest workers and dedicated forest team participated in the inspection. We examined all areas of our forests in Ying Jing county, Ya An City (totalling about 2,835 hectares and with forest stock volume of approximately 788,000 m³ as at 31 March 2008) because it is our forest closest to the epicentre and was more likely to suffer damage from the earthquake. We also examined, on a sampling basis, our forests in Le Shan City and Liang Shan Zhou where our other Sichuan forests (totalling about 9,612 hectares) are located. This examination covered a total of approximately 558 hectares of forests in Mei Gu Xian, Ma Bian Xian, Jin He Kou Qu, Jin Kou He Qu and Er Bian Xian. We inspected the forest and transportation conditions, and whether there were any loss or damage to our forestry assets. Based on our inspection, our Directors are of the view that the Sichuan Earthquake did not materially impact the condition of our tree stock and the roads surrounding our forests.

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

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

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

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

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

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

Global Financial Crisis

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

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

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

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

COMPETITIVE STRENGTHS

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

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

OUR FUTURE PLANS

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

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

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

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

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

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

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

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

Notes:

1. Other operating income represents the fair value of the saplings we receive from the PRC forestry bureaus, free of charge, for replanting purposes.
2. Changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets represents the difference between the acquisition cost and the fair value of the acquired forest asset as at the date of acquisition.

Changes in fair value of plantation assets less costs to sell during the year represents the aggregate of (i) the difference between the fair value of the existing forest assets as of the beginning and end of the period; and (ii) the difference between the fair value of the new forest assets as at the second day of acquisition and value as of the end of the period.
3. Operating expenses for logging activities consist of costs of harvesting and the Forest Maintenance Fees.
4. Reversal upon logging of the plantation assets represents the fair value of plantation assets, less costs to sell upon logging, and which were subsequently sold.

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

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

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

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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 (note)	—	—	(273,221)	(3,130,037)	(1,778,500)
Total comprehensive income for the year/period	<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,501,477</u>	<u>5,228,080,899</u>	<u>430,292,140</u>
Attributable to:					
Equity shareholders of the Company	<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,501,477</u>	<u>5,228,080,899</u>	<u>430,292,140</u>

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

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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	<u>578,144,731</u>	<u>1,370,111,297</u>	<u>7,925,777,868</u>	<u>8,144,757,051</u>
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 ...	<u>24,987,607</u>	<u>1,028,859</u>	<u>104,530,763</u>	<u>381,977,066</u>
Total current assets	<u>31,909,872</u>	<u>22,705,244</u>	<u>142,111,074</u>	<u>460,996,935</u>
Current liabilities				
Other payables	<u>(3,236,474)</u>	<u>(2,269,073)</u>	<u>(311,485,494)</u>	<u>(459,966,834)</u>
Total current liabilities	<u>(3,236,474)</u>	<u>(2,269,073)</u>	<u>(311,485,494)</u>	<u>(459,966,834)</u>
Net current assets/				
(liabilities)	<u>28,673,398</u>	<u>20,436,171</u>	<u>(169,374,420)</u>	<u>1,030,101</u>
Total assets less current				
Liabilities	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,756,403,448</u>	<u>8,145,787,151</u>
Non-current liabilities				
Other payables	—	—	(321,053,207)	—
Total non-current				
liabilities	<u>—</u>	<u>—</u>	<u>(321,053,207)</u>	<u>—</u>
Net assets	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,435,350,241</u>	<u>8,145,787,151</u>
Capital and reserves				
Share capital	10,000,001	10,000,000	232,245	256,606
Reserves	<u>596,818,128</u>	<u>1,380,547,468</u>	<u>7,435,117,996</u>	<u>8,145,530,545</u>
Total equity attributable to				
equity shareholders of the				
Company	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,435,350,241</u>	<u>8,145,787,151</u>

SUMMARY

Consolidated Statements of Cash Flows

	Years ended 31 December			Six months ended 30 June	
	2006 RMB	2007 RMB	2008 RMB	2008 RMB (unaudited)	2009 RMB
Operating activities					
Net cash generated from operating activities	<u>43,490,926</u>	<u>96,042,152</u>	<u>376,592,857</u>	<u>47,864,050</u>	<u>284,887,561</u>
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)	(273,695,160)	(38,403,134)	(203,868,599)
Proceeds from disposal of plantation assets	—	—	74,800	74,800	—
Interest received . . .	<u>149,624</u>	<u>174,094</u>	<u>1,480,623</u>	<u>384,110</u>	<u>176,309</u>
Net cash used in investing activities	<u>(36,211,416)</u>	<u>(120,000,900)</u>	<u>(347,835,316)</u>	<u>(47,897,561)</u>	<u>(287,586,028)</u>
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	<u>—</u>	<u>—</u>	<u>74,744,363</u>	<u>248,118,354</u>	<u>280,144,770</u>
Net movement in cash and cash equivalents	<u>7,279,510</u>	<u>(23,958,748)</u>	<u>103,501,904</u>	<u>248,084,843</u>	<u>277,446,303</u>
Cash and cash equivalents at 1 January	<u>17,708,097</u>	<u>24,987,607</u>	<u>1,028,859</u>	<u>1,028,859</u>	<u>104,530,763</u>
Cash and cash equivalents at 31 December/ 30 June	<u>24,987,607</u>	<u>1,028,859</u>	<u>104,530,763</u>	<u>249,113,702</u>	<u>381,977,066</u>

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

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

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

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

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

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

Notes:

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

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

SUMMARY

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

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

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

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

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

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

DIVIDEND POLICY

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

SUMMARY

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

RISK FACTORS

Risks Relating to our Business

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

SUMMARY

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

Risks Relating to our industry

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

Risks Relating to Conducting Operations in China

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

SUMMARY

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

DEFINITIONS

In this document, the following expressions and terms shall have the meanings set out below unless the context otherwise requires. Certain terms are explained in the section headed “Glossary of Technical Terms” in this document.

“Accession and Amendment Agreement”	an agreement dated 18 March 2008 and entered into between Mr. Li Kwok Cheong, Kingfly Capital, us and the Carlyle Funds to amend the First Share Purchase Agreement and the First Shareholders’ Agreement
“affiliate”	any person, directly or indirectly, controlling or controlled by or under direct or indirect common control with a specified person
“Articles of Association” or “Articles”	the articles of association of our Company, adopted on 5 November 2009 and as amended from time to time, a summary of which is set out in Appendix VI to this document
“Beijing Zhaolin ”	Beijing Zhaolin Forestry Resources Development Co., Ltd. (北京兆林林業資源開發有限公司), a limited company established in the PRC on 6 August 2001, wholly owned by Li Kwok Cheong, and which forestry assets have been purchased by Kunming Ultra Big, and was engaged in the management and development of forest and sales of logs. It was dissolved and deregistered on 4 September 2008
“Board” or “Board of Directors”	the board of Directors of the Company
“business day”	a day that is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGP”	Carlyle Asia Growth Partners III, L.P., an exempted limited partnership organised under the laws of the Cayman Islands, acting through its general partner CAGP General Partner, L.P., an exempted limited partnership formed under the laws of the Cayman Islands (“CAGP LP”) which itself acts through its general partner CAGP, Ltd., an exempted company incorporated under the laws of the Cayman Islands
“CAGP Coinvestment”	CAGP III Coinvestment, L.P., an exempted limited partnership organised under the laws of the Cayman Islands, acting through its general partner CAGP LP which itself acts through its general partner CAGP, Ltd., an exempted company incorporated under the laws of the Cayman Islands
“CAGR”	compound annual growth rate, a method of assessing the average growth of a value over time

DEFINITIONS

“Carlyle Funds”	each of CAGP and CAGP Coinvestment
“Carlyle Group”	T.C. Group, LLC and its affiliated companies and investment funds conducting business as the “Carlyle Group”
“Cayman Companies Law”	The Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CCPEF”	the China Council for the Promotion of Environment and Forestry (中國林業與環境促進會), a national non-profit association in China managed by the SFA and established for promoting the proper use of resources, protection of the environment and sustainable economic development
“CFK”	Chandler Fraser Keating Limited, an independent technical consultant engaged by us to value our forests and prepare an independent technical report which is set out in Appendix V to this document
“Chengdu Yishang”	Chengdu Yishang Forestry Resource Development Co., Ltd. (成都億尚林業資源開發有限公司), a limited company established in the PRC on 21 March 2008 and an indirect wholly-owned subsidiary of the Company, and is engaged in the management and development of forest and sales of logs
“China” or “PRC”	the People’s Republic of China excluding, for the purpose of this document, Hong Kong, the Macau Special Administrative Region of the PRC, and Taiwan
“China Zhaoneng”	China Zhaoneng Group Limited (中國兆能集團有限公司), an investment holding company incorporated in Hong Kong on 15 November 2006 and an indirect wholly-owned subsidiary of the Company
“Connected Person”	any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“Controlling Shareholders”	Kingfly Capital and Mr. Li Kwok Cheong
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the Chinese national securities markets
“Director(s)”	director(s) of the Company
“EU” or “European Union”	a supranational and intergovernmental union of twenty-seven states and a political body. It was established in 1993 by the Treaty on European Union and is the de facto successor to the six member European Economic Community founded in 1957
“FAO”	the Food and Agriculture Organization of the United Nations, which acts as a neutral forum where all nations negotiate agreements

DEFINITIONS

	and debate policy, and collects, analyses and disseminates data to aid development and keeps a comprehensive database on forestry information for countries worldwide
“Fine Fit”	Fine Fit Limited (億尚有限公司), an investment holding company incorporated on 3 December 2007 in Hong Kong as a limited company and an indirect wholly-owned subsidiary of the Company
“First Shareholders’ Agreement”	a shareholders agreement dated 30 December 2007 and entered into between, among others, Mr. Li Kwok Cheong, Kingfly Capital, ourselves and the Carlyle Funds to, among other things, regulate their respective rights and obligations as shareholders of the Company
“First Share Purchase Agreement”	a share purchase agreement dated 30 December 2007 and entered into between, among others, Mr. Li Kwok Cheong, Kingfly Capital, ourselves and the Carlyle Funds pursuant to which the Carlyle Funds acquired and subscribed for an aggregate of 4,000,000 Shares for a total consideration of HK\$312,044,000 (equivalent to approximately US\$40,000,000)
“Forest Maintenance Fee”	a fee required to be paid when a logging permit is applied for in the PRC, which is contributed to the forest maintenance fund (育林基金) maintained by the PRC government
“FSC”	The Forest Stewardship Council, being a council established in the early 1990s by a group of concerned business representatives, social groups and environmental organisations following the UN Conference on Sustainable Development in 1992
“GDP”	gross domestic product
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administration Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
“Hong Kong dollar(s) or HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

"Hong Kong Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"IAS"	International Accounting Standards
"IFRS"	International Financial Reporting Standards promulgated by the International Accounting Standards Board, including the IAS and their interpretations
"Implementation Regulations of PRC EIT Law"	the Regulations for the Implementation of the PRC EIT Law (中國人民共和國企業所得稅法實施條例) promulgated on 6 December 2007 and became effective on 1 January 2008
"Implementation Regulations of PRC Forestry Law"	the Regulations for the Implementation of the PRC Forestry Law (中華人民共和國森林法實施條例) effective as of 29 January 2000
"Independent Third Party(ies)"	a person(s) or company(ies) which is (are) not a Connected Person
"International Fund"	International Fund Management S.A., a company organised under the laws of Luxembourg
"IFM-Invest: 2 PrivateEquity"	an investment fund organised under the laws of Luxembourg and managed by International Fund and advised by Partners Group AG
"ITTO"	International Timber Organization, an intergovernmental organisation which promotes the conservation and sustainable management, use and trade of tropical forest resources, and collects, analyses and disseminates data on the production and trade of tropical timber, develops policy documents to promote sustainable forest management and forest conservation and assists tropical member countries to adapt such policies to local circumstances and to implement them in the field through projects
"ITTO 2008 Report"	ITTO's Annual Review and Assessment of the World Timber Situation 2008
"Kingfly Capital"	Kingfly Capital Limited (景豐資本有限公司), an investment holding company incorporated on 7 November 2007 in the BVI as a limited company, the entire issued share capital of which is owned by Mr. Li Kwok Cheong
"Kunming Ultra Big"	Kunming Ultra Big Forestry Resource Development Co., Ltd.(昆明錦德林業資源開發有限公司), a limited company established in the PRC on 7 March 2008 and an indirect wholly-owned subsidiary of the Company, and is engaged in the management and development of forest and sales of logs
"Latest Practicable Date"	[14 November] 2009

DEFINITIONS

“Memorandum”	the memorandum of association of our Company
“MOFCOM”	the Ministry of Commerce of the PRC
“mu”	a measurement of area used in the PRC; 15 Chinese mu is equal to 1 hectare
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會), a macroeconomic management agency under the State Council, which studies and formulates policies for economic and social development, maintains a balance of economic aggregates and guides overall economic system restructuring
“No. 9 Policy”	The Decision of the Central Committee of the Communist Party of China and the State Council on Accelerating the Development of Forestry (中共中央、國務院關於加快林業發展的決定(中發[2003]9號)) promulgated on 25 June 2003 (“No. 9 Policy”), which set out, among other things, the directive for the private sector to participate in China’s forestry development
“NPC”	the National People’s Congress of the PRC
“Partners Group”	Partners Group Holding AG and its subsidiaries conducting business as “Partners Group”
“Partners Group Access”	Partners Group Access 119 L.P., a limited partnership organised under the laws of Scotland, acting through its general partner, Partners Group Management (Scotland) Limited, a private company limited by shares incorporated under the laws of Scotland and an indirect wholly-owned subsidiary of Partners Group Holding AG, a limited liability company incorporated under the laws of Switzerland
“Partners Group Funds”	each of Partners Group Access and International Fund on account of IFM-Invest: 2 PrivateEquity being investment vehicles advised by Partners Group AG
“Partners Group Holding AG”	Partners Group Holding AG, a limited liability company incorporated under the laws of Switzerland
“PRC Companies Law”	the PRC Companies Law (中華人民共和國公司法), which was first enacted by the SCNPC on 29 December 1993 and became effective on 1 July 1994 (as amended from time to time)
“PRC EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法), which was enacted by the NPC on 16 March 2007 and became effective on 1 January 2008

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“PRC Forestry Law”	the PRC Forestry Law (中華人民共和國森林法), which was enacted by the SCNPC on 20 September 1984 and amended on 29 April 1998
“PRC GAAP”	China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and its supplementary regulations
“PRC Labour Contract Law”	the PRC Labour Contract Law (中華人民共和國勞動合同法), which was enacted by the SCNPC on 29 June 2007 and became effective on 1 January 2008
“Profit Wise”	Profit Wise International Limited (智盈國際有限公司), an investment holding company incorporated on 7 November 2007 in the BVI as a limited company and a wholly-owned subsidiary of the Company
“Reorganisation”	the corporate reorganisation of our Group, details of which are set out in the section headed “History, Reorganisation and Corporate Structure” in this document
“Rich Fame”	Rich Fame International Limited (美豐國際有限公司), an investment holding company incorporated on 7 November 2007 in the BVI as a limited company and a wholly-owned subsidiary of the Company
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration
“SCNPC”	the Standing Committee of the NPC
“Second Amendment Agreement”	an agreement dated 25 July 2008 and entered into between, among others, Mr. Li Kwok Cheong, Kingfly Capital, us and the Carlyle Funds to amend the First Shareholders’ Agreement as amended by the Accession and Amendment Agreement
“Second Shareholders’ Agreement”	a shareholders’ agreement dated 25 June 2009 and entered into between, among others, Mr. Li Kwok Cheong, Kingfly Capital, Mr. Li Han Chun, Top Wisdom, Mr. Huang Fan, Victory Early, ourselves, the Carlyle Funds and the Partners Group Funds, which supersedes the First Shareholders Agreement as amended by the Accession and Amendment Agreement and the Second Amendment Agreement, to, among other things, regulate their respective rights and obligations as shareholders of the Company
“Second Share Purchase Agreement”	a share purchase agreement dated 25 June 2009 and entered into between, among others, Mr. Li Kwok Cheong, Kingfly Capital, Mr. Li Han Chun, Top Wisdom, ourselves, the Carlyle Funds and the Partners Group Funds pursuant to which the Carlyle Funds

DEFINITIONS

	further acquired and subscribed for an aggregate of 1,304,347 Shares for a total consideration of US\$14,999,990.5 and the Partners Group Funds acquired and subscribed for an aggregate of 2,608,696 Shares for a total consideration of US\$30,000,004
"Securities and Futures Commission" or "SFC"	the Securities and Futures Commission of Hong Kong
"SFA"	the State Forestry Administration of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time)
"Share(s)"	ordinary share(s) with nominal value of US\$0.001 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"Sichuan Earthquake"	the earthquake with a magnitude 8.0 on the Richter scale that hit Sichuan, China on 12 May 2008
"Sky Famous"	Sky Famous Limited (聖輝有限公司), an investment holding company incorporated on 27 August 2007 in the BVI as a limited company and a wholly owned subsidiary of the Company
"State Council"	the State Council of the PRC
"Top Wisdom"	Top Wisdom Overseas Holdings Limited, an investment holding company incorporated on 26 March 2008 in the BVI as a limited company, the entire issued share capital of which is owned by Mr. Li Han Chun
"Track Record Period"	the three financial years ended 31 December 2008 and the six months ended 30 June 2009
"Ultra Big"	Ultra Big Investments Limited (錦得投資有限公司), an investment holding company incorporated on 3 December 2007 in Hong Kong as a limited company and an indirect wholly-owned subsidiary of the Company
"United States" or "US"	the United States of America
"US\$" or "US dollar"	United States dollar, the lawful currency of the United States
"Victory Early"	Victory Early Investments Limited, an investment holding company incorporated on 26 March 2008 in the BVI as a limited company, the entire issued share capital of which is owned by Mr. Huang Fan
"VAT"	value added tax

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“Yunnan Earthquake”	the earthquake with a magnitude 6.0 on the Richter scale that hit Yunnan, China on 9 July 2009
“Yunnan Luxi/ Shuangjiang Forest”	the forest of approximately 59,333 hectares located in Luxi, Lin Cang City and Shuangjiang, De Hong Zhou of Yunnan Province, which we acquired in March 2008
“Yunnan Wenshan Forest”	the forest of approximately 100,000 hectares located in Wen Shan Zhou of Yunnan Province, which we acquired in July 2008

In this document:

- unless otherwise specified, amounts denominated in RMB and US\$ have been translated for the purpose of illustration only into Hong Kong dollars (or vice versa) in this document at the following rates:

HK\$1.00 : RMB0.88

HK\$[7.8] : US\$1.00

US\$1.00 : RMB6.83

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been converted at the above rates or any rates at all at the relevant dates.

- “Company” and “our Company” refer to China Forestry Holdings Co., Ltd., a company incorporated on 21 December 2007 as an exempted company under the laws of the Cayman Islands;
- “Group”, “our”, “we” and “us” means the Company and its subsidiaries from time to time and where the context refers to any time prior to the completion of the Reorganisation, includes Beijing Zhaolin and its businesses;
- the terms “associate”, “connected transaction”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires;
- “forestry right” or “forest right” refers to the legal right to own the trees and use the forest land and the forest trees under the PRC law, and references to ownership of forest, unless the context otherwise requires, shall mean ownership of “forestry right” in that forest (for the avoidance of doubt, we do not own forest lands under PRC law);
- for ease of reference, the names of companies and entities established in China have been included in this document in English by way of translation if such Chinese entities do not have an English name as part of their legal name, and if there is any inconsistency between the Chinese names of the Chinese entities mentioned in this document and their English translations, the Chinese version shall prevail; and
- for ease of reference, the names of companies and entities incorporated outside China have been included in this document in English and, where available, a Chinese translation has been provided even though such Chinese name may not be part of their legal name, and if there is any inconsistency between the Chinese translation and the English names of entities incorporated outside China which are mentioned in this document, the English version shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains terms used in this document as they relate to our business and as they are used in this document. They may not correspond to standard industry meaning or usage.

“beech”	<i>Fagus spp.</i> , a hardwood tree, which wood is used to produce a variety of solid wood products such as wood panels, furniture, flooring and construction materials (for more details, please refer to Appendix 1 of the Independent Technical Report as set out in Appendix V to this document)
“birch”	<i>Betula alanooides</i> , a hardwood tree, which wood is strong and durable, and is used for producing a variety of solid wood products such as wood panels, furniture, flooring and other construction materials (for more details, please refer to Appendix 1 of the independent technical report prepared by CFK as set out in Appendix V to this document)
“Chinese fir”	<i>Cunninghamia lanceolata</i> , a softwood tree, which wood is highly durable, easily worked, resistant to insects and termites, and is commercially and widely used in China for making wood panels, plywood, furniture and pulp (for more details, please refer to Appendix 1 of the Independent Technical Report as set out in Appendix V to this document)
“CIF”	cost, insurance and freight, a trade term requiring the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier
“clear logging”	logging of all the trees planted in the forest, which is usually applied to the mature or over-mature single-canopied forest and to an area which generally does not exceed 5 hectares, or in Chinese, 皆伐
“commodity forest”	forest which timber is logged for commercial purpose
“principle logging”	logging of the mature or over-mature timber stands for the purpose of obtaining logs, which is further divided into clear logging, shelterwood logging and selective logging, or in Chinese, 主伐
“fuelwood”	wood used as fuel, usually of lower quality logs
“GIS”	Geographical Information System, a system which integrates hardware, software, and data for capturing, managing, analysing, and displaying all forms of geographically referenced information
“GPS”	Global Positioning System, a navigation and precise-positioning tool
“harvestable forest”	forest which falls within the category of timber stand under the functional categorisation of forest by SFA and therefore is allowed for logging for commercial use

GLOSSARY OF TECHNICAL TERMS

“hardwood”	tree species primarily from broad-leaved trees or angiosperms distinguished from softwoods by cell structure, examples include birch, beech, and alder
“HDF”	high density fibreboard
“immediately harvestable forest”	forest which falls within the category of timber stand under the functional categorization of forest by SFA and which logs are generally marketable (there is no definite age which the forest must attain in order to be classified as “immediately harvestable”, however the “immediately harvestable forest” usually has reached or is near the stage of “mature forest”)
“MDF”	medium density fibreboard
“middle-aged forest”	forest which has grown in full and which logs are generally marketable
“mature forest”	forest which growth has become very slow or has stopped and which logs are generally marketable
“naturally regenerated forests”	forests of naturally occurring and naturally regenerated native species
“non-commodity forest”	forest which timber is logged for self-use purpose by the villagers and for firewood
“plantation forests”	forests of introduced species, and in some cases native species, established through planting or seeding
“plywood”	layers of veneer, consisting of an inner core (lower quality veneer) joined with an adhesive to a face veneer and a back veneer (higher quality veneer), and can be used for both structural and appearance purposes
“regeneration logging”	the logging conducted in order to resume and enhance the utility of the protection forests and the forests for special uses, or in Chinese, 更新採伐
“roundwood”	wood in log form
“sawnwood”	lumber solid dimension pieces of wood that have been sawn from a log
“selective logging”	selective logging of forest, which is usually applied to multi-canopied forest with a large amount of middle and young aged trees, or in Chinese, 擇伐
“shelterwood logging”	logging for the purpose of natural reforestation, which is usually applied to the mature or over-matured single-canopied forests with strong natural reforestation ability, or in Chinese, 漸伐

GLOSSARY OF TECHNICAL TERMS

“softwood”	tree species primarily conifers and distinguished from hardwoods by cell structure, examples include Chinese fir, Radiata pine, Russian pine, Russian larch, and cedar
“stumpage”	sales price less costs of production (which usually includes logging, transport, road construction and indirect sales costs)
“temperate hardwood”	hardwoods grown in temperate climate
“tending logging”	logging conducted in order to cultivate the young and pre-mature forests, or in Chinese, 撫育採伐
“timber stand”	forests and trees mainly aimed at timber production, or in Chinese, 用材林
“tropical log”	generally refers to hardwood tropical logs sourced from regions between the Tropic of Capricorn and Tropic of Cancer
“veneer”	thin sheets of wood obtained by either rotary peeling a round log or slicing thin sections of wood from a round log, and are classified according to grade and thickness with highest quality referred to as face veneer, next highest as back and the lower quality as core. Face veneer is often used as an overlay on MDF or particleboard as well as in the manufacture of plywood
“Yunnan Pine”	<i>Pinus yunnanensis</i> , a softwood tree, which wood is commercially and widely used for making wood panels, plywood, furniture and pulp (for more details, please refer to Appendix 1 of the independent technical report prepared by CFK as set out in Appendix V to this document)
“young forest”	forest in growth and which logs are generally not marketable

RISK FACTORS

RISKS RELATING TO OUR BUSINESS

Our results may fluctuate due to revaluation gains or losses on our forest assets.

Valuation gains or losses on our forest assets can dramatically impact the results of our operations because a significant component of our profit for the year consists of changes in fair value of such assets. Under IAS 41, we are required to reassess the fair value of our forest assets less costs to sell at each balance sheet date. In the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we recognised unrealised gains of approximately RMB350.5 million, RMB798.5 million, RMB6,024.4 million and RMB518.9 million respectively. We incurred such significant unrealised gains because we have acquired new forests at relatively low acquisition costs during such period.

The fair value of our forest assets is derived from many assumptions. We engaged CFK, an independent forestry asset valuer, to assess the fair value. As there was no active market for forests, CFK used a net present value approach based on the projected net cash flows expected to be derived from our forest assets in the future, and a number of other key assumptions. These key assumptions include, among other things, the discount rate, market prices for each grade of logs produced, production costs, yield volume, natural tree growth, and the harvesting rate at our forests. Slight changes in these assumptions may result in a large increase or decrease in fair value. For further information, please see "Financial Information — Critical Accounting Policies — fair value of plantation assets less costs to sell."

No independent verification has been carried out on the Group's forest stock volume figures extracted from the forest valuation reports issued by CFK. Further, CFK estimated the volume per hectare from the survey of the Chinese government, which was carried out every five years with the latest survey carried out nationally between 1999 and 2003. The key assumptions on physical factors such as yield estimates used in valuing the plantation assets may also vary from time to time when more updated information is collected by the Group. All these factors would impact on the fair value of our forest assets and result in fluctuations of our results due to revaluation gains or losses.

Therefore, our results of operations from period to period may vary due to revaluation gains or losses required to be calculated as at each balance sheet date under IAS 41, reflecting fluctuations in prevailing market conditions. We cannot assure you that the fair value of our forest assets less costs to sell will not decrease in the future. Any such decrease in the fair value of our forest assets less costs to sell may have an adverse effect on our results of operations.

The unrealized gains arising from changes in fair value of plantation assets less costs to sell for the year ended 31 December 2008 comprises (a) an unrealized gain of approximately RMB6,635 million arising upon initial acquisition of plantation assets in Yunnan Luxi and Yunnan Wenshan, and (b) an unrealized loss of approximately RMB611 million during the year, primarily due to a revision in yield estimate and drop in log prices in the second half of 2008. Further details of such revision are set out in "Financial Information — Critical Accounting Policies — A. Fair value of plantation assets less costs to sell".

Investors should be aware that profits of the Group are subject to changes in fair value arising from any subsequent revision in estimated forest data upon availability of more updated information and there is no assurance that such revision in estimated forest data will not have any material adverse impact on the Group's profits.

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In addition, as a significant portion of our profit is the amounts recorded as unrealised gains, investors should be aware that a profit shown on our financial statement may not generate positive cash flow from operations, unless such forest assets are disposed of at such revalued amounts.

Our forest survey and knowledge of our forests are subject to errors of survey.

Our operating results depend on our knowledge of forests. We regularly visit our forests to monitor their growth and condition. In this process, we use a random sampling method for our survey of forests. We cannot guarantee the reliability of the results of our survey. In the event that the results of our survey are not reliable, our knowledge of our forests and our ability to manage our forests could be greatly hampered, which may have a material adverse effect on our business, financial condition and results of operations.

Our customers were primarily located, and all of our log sales came from our forests, in Sichuan and Yunnan, areas which have been and may be affected by earthquakes.

During the Track Record Period, all of our forests (save for the 6 hectares of forest in Anhui which we disposed of in April 2008) and most of our customers, were in Sichuan and Yunnan. 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 corresponding 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. Sichuan and Yunnan have been affected by earthquakes recently.

On 12 May 2008, an earthquake of magnitude 8.0 on the Richter scale hit Sichuan, killing tens of thousands of people and causing severe physical damage to roads, buildings and infrastructure. Our Sichuan forests are located in Ya An City, Le Shan City and Liang Shan Zhou, which are located approximately 183, 189.5 and 377.7 kilometres respectively, from the epicentre of this Sichuan Earthquake. We have visited our Sichuan forests since the Sichuan Earthquake and determined that it has caused no apparent damage to our forests and the roads surrounding our forests. Based on interviews with our customers and our employees in Sichuan, we have determined that other than a few days' work stoppage immediately after 12 May 2008, the earthquake had no material impact on their operations or daily activities and that business has resumed to normal. Immediately after the Sichuan Earthquake, we, out of prudent safety concerns, had voluntarily ceased logging for 4 days from 12 May 2008, and have since resumed normal logging activities. Some of our customers' payments in May 2008 had been delayed due to the Sichuan Earthquake, but all such payments had been fully settled by June 2008. Accordingly, our Directors are of the view that the impact of the Sichuan Earthquake to our assets, operations and financial positions is minimal.

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

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An earthquake could cause not only deaths and injuries and damages to roads, houses and buildings, but also environmental disasters such as landslides and floods, which in turn could result in more injuries and more extensive and serious damages to properties. There is no assurance that future earthquakes or consequences from natural or man-made disasters (such as government emergency measures, flooding or population relocations) will not have any material adverse effect on our business, financial condition and results of operations.

We have a limited operating history and a limited track record.

Our involvement in the forestry industry only began in 2003, the same year when the Chinese government announced the No. 9 Policy which set out the directive for the private sector to participate in China's forestry development. Since then, we acquired forests and sold timber to customers in primarily one province, Sichuan. We only began acquiring forests and operating in Yunnan in the first half of 2008. Our experience and operations in the PRC forestry industry are thus relatively limited. Additionally, we have a limited operating history as a separate group. Prior to the Reorganisation, all of our operations were conducted by Beijing Zhaolin, our predecessor entity. There is no assurance that our Group will successfully continue the business of Beijing Zhaolin under its current structure. The historical financial statements included in this document may not necessarily reflect our results of operations, financial position, and cash flows in the future.

We have only recently expanded into Yunnan and we may not be able to meet the demands arising from our rapid expansion.

During the two years ended 31 December 2006 and 2007, our forests (save for a 6-hectare forest in Anhui) and our logging and sales activities were located and conducted in Sichuan. We acquired our Yunnan forests in 2008 and we only began harvesting operations in Yunnan in May 2008. For the year ended 31 December 2008 and the six months ended 30 June 2009, approximately 70.5% and 81.4% respectively, of our turnover for the corresponding periods was generated in Yunnan. While our new Yunnan forests are the majority of our assets, we have limited history of operating in Yunnan. There is no assurance that we will operate successfully in Yunnan.

As at 31 December 2006, 2007 and 2008 and 30 June 2009, our forest area amounted to approximately 4,603 hectares, 12,453 hectares, 171,780 hectares and 171,780 hectares respectively, which represented a CAGR of approximately 510.9% between 2006 and 2008. In March 2008 and July 2008, we acquired approximately 59,333 hectares and 100,000 hectares of forest in Yunnan, respectively. As our forest reserve expands rapidly, our operational systems will need to be improved and more professionals will need to be hired to meet the additional needs of our expanded operations. There is no assurance that our future operating systems and professional team can meet the demands of our operations. In the event that our operating systems and professional team fail to meet the demands of our operations, the profitability and results of our operations may be materially and adversely affected.

We may face increased costs for new forest acquisitions.

For the 2006, 2007 and 2008 financial years, our new forest acquisition cost per hectare (excluding land use rights) was RMB10,853, RMB11,913 and RMB4,487, respectively, and our total new forest acquisition cost (excluding land use rights) was RMB29.1 million, RMB93.5 million and RMB714.9 million, respectively. We did not make any forest acquisition in the first half of 2009. As the number of entrants into the private forestry sector increases due to the privatisation of the PRC forestry sector, we expect greater competition for acquiring

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forests, which may drive up acquisition prices. In addition, as the private forestry sector develops, sellers may become increasingly sophisticated about the valuation and prices of their forests and may demand higher premiums for high quality forests. There is no assurance that we will be able to negotiate favourably low prices for our new forest acquisitions. Rising acquisition costs and intensifying competition for new forests may hamper our expansion plans and have an adverse impact on the profitability and results of our operations.

Our revenues are sensitive to log price fluctuations in the forestry industry.

Historically, prices for logs have been volatile and are affected by numerous factors that we cannot control, including demand for wood and wood products, supply from illegal logging, changes in currency exchange rates, economic growth rates, foreign and domestic interest rates, trade policies, and prevailing fuel and transportation costs.

In addition, industry-wide increases in the supply of logs during a favourable price period can also lead to downward pressure on prices through oversupply. Increased production by us and our competitors could lead to oversupply and lower prices. Oversupply and lower prices may also result from illegal logging activity or decreased government enforcement of logging restrictions. If market prices for logs were to decline, it could have a material adverse effect on our business, financial condition and results of operation.

Our revenues and profits are extremely sensitive to changes in log prices. Our logs are sold at a price including VAT (and for the avoidance of doubt, the turnover recorded in the Accountant's Report set out in Appendix I to this document is exclusive of VAT), and our average selling price (including VAT) of Chinese fir logs for the 2006, 2007 and 2008 financial years and the six months ended 30 June 2009 were approximately RMB957, RMB982, RMB990 and RMB976 per cubic metre, respectively. The decrease of approximately 1.4% for the six months period ended 30 June 2009, as compared to that for the financial year ended 31 December 2008, was 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.

Our average log prices (excluding VAT) of Chinese fir in RMB by cubic metres of wood at roadside sales for the 2006, 2007 and 2008 financial years and the six months ended 30 June 2009 were RMB920, RMB944, RMB887 and RMB853, respectively. The decrease for the six months period ended 30 June 2009 in our average log prices (excluding VAT) is due to the increase of our applicable VAT from 4% to 13% since April 2008. In periods prior to April 2008, we enjoyed a 4% VAT rate when our logs were sold in the name of Beijing Zhaolin, our predecessor entity. However, as from April 2008 when our logs were sold in the name of Kunming Ultra Big, our PRC subsidiary, we have been subject to a 13% VAT rate which is applicable to non-small forestry enterprises which turnover have reached a certain level. Our PRC legal advisers have advised that Kunming Ultra Big should be subject to a 13% VAT rate. However, Kunming Ultra Big has been advised by the local tax authority that it is only required to pay the VAT at 6% before 1 January 2009 and at 3% from 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 between 13% and the VAT rate we actually paid or charged our customers, in our

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accounts for prudence's sake, and accordingly such provision has been included in our financial statements for the year ended 31 December 2008 and the six months ended 30 June 2009.

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 command a higher average selling price.

For detailed movements in the Group's log prices (excluding VAT) since the global financial crisis in September 2008, please refer to "Financial Information — Factors Affecting Results of Operations — (1) Market demand and supply conditions for logs".

Changes in log prices can result in significant fluctuations in gain/(loss) from changes in fair value of plantation assets less costs to sell. For example, for the year ended 31 December 2008, a 5% decrease or increase in the average log price applied to our Sichuan forests, the Yunnan Luxi/Shuangjian Forest and the Yunnan Wenshan Forest, would result in (i) a 77%, 8% and 13% decrease or increase, respectively, in our gain/(loss) from changes in fair value of plantation assets less costs to sell; and (ii) a 1%, 6% and 4% decrease or increase, respectively, in our net profit. Thus, slight changes in log prices may cause a disproportionately large change in our revenues and our results of operation.

Our forests are subject to PRC environmental regulations.

Our operations in China are subject to a wide range of PRC environmental laws and regulations, which regulate, among other things, forestry activities, including harvesting, land clearing for forests, planting in forest areas and the emission or discharge of pollutants or wastes into the soil, water or atmosphere.

Our PRC legal advisers have advised that we are required to conduct an environmental impact assessment according to the PRC Environmental Protection Law, the PRC Environmental Impact Assessment Law and the relevant regulations. However, during the Track Record Period, we had not conducted any formal environmental impact assessment for our forests. Our PRC legal advisers have advised that in such circumstances, the environmental bureau may order us to conduct an environmental impact assessment within a prescribed period, and if we fail to do so, it may impose a fine of not less than RMB50,000 and up to RMB200,000. The local environmental bureaus have not advised whether they would take any actions against us for the non-performance of the environmental impact assessment. Should they take any actions against us in connection with this, our reputation, operation and profitability may be adversely and materially affected.

Environmental laws and regulations have generally become more stringent in recent years and could become even more stringent in the future. We may be required to obtain certain licenses before we are permitted to occupy certain premises and/or carry out certain activities. They also protect endangered or threatened wildlife species which may live in our forests. Some of these environmental laws and regulations could impose significant costs, expenses, penalties and liabilities on us for violations of existing conditions attached to our

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licenses, whether or not we caused or knew about them. Violations of such laws and regulations may result in civil penalties (such as fines and recovery of costs), remediation expenses, potential injunctions and prohibition orders and criminal penalties. Some environmental statutes impose strict liability, rendering a person liable for environmental damage without regard to the person's negligence or fault.

Compliance with, or damages or penalties for violating, current and future environmental laws and regulations could result in reduction in harvesting volume and may force us to incur significant expenses, which in turn could have a material adverse effect on our business, financial condition and results of operations. Other than initial due diligence of any environmental problems prior to acquiring new forests, we have never engaged any environmental experts to investigate our forests for environmental problems and issue any environmental reports, nor do we formally assess the impact of our operations on the environment. Moreover, due to the large area of our forests in Sichuan and Yunnan, we do not currently have the resources to maintain surveillance of our forests for third party activities, and we may thus be vulnerable to environmental problems created by third parties. We also do not have sufficient resources to assess quickly the impact of natural disasters on our forests. Our strategy for reducing environmental risks is to practice selective logging so as to minimise the impact on the environment.

Any tightening of the requirements prescribed by environmental laws and regulations in China, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing our compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, which may place additional demands on our liquidity and adversely affect our results of operations.

We depend on certain major customers.

For each of the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our five largest customers accounted for approximately 93.9%, 85.3%, 44.8% and 56.2% of our total turnover respectively; whilst our largest customer accounted for approximately 47.1%, 22.7%, 9.7% and 12.8% of our total turnover respectively. All of our five largest customers during the Track Record Period are Independent Third Parties. If all or any of these major customers cease to place orders with us, our business and financial performance may be adversely affected.

During each of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we had a total of 10, 16, 19 and 17 customers respectively, which had purchased and received our logs during these respective periods. Based on our experience, we believe that our customer demand will increase, but the number of customers may decrease due to consolidation in the wood processing and paper industry. Our business and financial performance may be vulnerable to the sudden loss of a few customers as a result of such consolidation.

We may face increased operating costs and staff costs.

Our business may face increased operating costs as the forestry industry continues to develop in the PRC. Our operating expenses for logging activities consist of our costs of harvesting, such as labour costs, and costs associated with applying for logging permits,

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namely, the Forest Maintenance Fees. We expect labour costs to rise as villagers who harvest our logs become more experienced and increase their wage demands. 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 be expected to further increase accordingly. Our cost of harvesting has experienced a steady upward trend during the Track Record Period from RMB153 per m³ for the 2006 financial year to RMB245 per m³ for the six months ended 30 June 2009. Forest Maintenance Fees are subject to periodic revisions by the local forest bureaus and the SFA and we expect them to increase as the industry develops. Our staff costs are also impacted by the new PRC Labour Contract Law which took effect as of 1 January 2008. The law establishes minimum wage, safety and educational requirements, all of which are expected to increase our staff costs as well as our regulatory compliance costs commencing in 2008. Increases in our operating expenses for logging activities and staff costs may have a material adverse effect on our business, financial condition and results of operations.

We recorded net current liabilities during the Track Record Period.

As at 30 June 2009, we had net current assets of approximately RMB1.0 million. As at 31 December 2006 and 2007, we also had net current assets of approximately RMB28.7 million and RMB20.4 million respectively. However, as at 31 December 2008, we had net current liabilities of approximately RMB169.4 million which related primarily to outstanding amounts payable for forest acquisitions which had, subsequently, been settled in part. There can be no assurance that we will not revert to a net current liabilities position again depending on the pace of our acquisitions of forests and how we fund such acquisitions. Any difficulties in funding net current liabilities could materially and adversely affect our forest acquisitions, operations and financial condition.

Our inability to obtain logging permits with sufficient logging amount could reduce our future revenues.

China imposes strict controls over harvesting in forests. A logging permit setting out, among other things, the quota (in terms of maximum area and/or number of trees) allowable for logging and the period of logging must be obtained from the local forestry bureaus for harvesting. Local forestry bureaus cannot issue logging permits in excess of the provincial annual logging quota set by the State Council.

We have been advised by the local forestry bureaus in Sichuan and Yunnan that our maximum logging amount each year is 10% of the total forest stock volume of all our forests. Since our forest stock volume will change over time, they have not confirmed any absolute figure of our annual maximum logging amount. For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the maximum logging amount permitted under the logging permits granted to us (whether or not they have been fully utilised) were 77,034 m³, 169,329 m³, 519,928 m³ and 356,730 m³ respectively, and our actual logging amounts were 75,909 m³, 169,329 m³, 519,928 m³ and 356,730 m³ respectively.

Because the availability of logging permits is subject to the approval of the relevant local forestry bureau, there is no assurance that we will be able to continue obtaining logging permits, or that the logging amount given to us under the logging permits will be sufficient for our operations. Should we fail to obtain logging permits with logging amount sufficient for our

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operations, our revenues in the future may be reduced and our business, financial condition and results of operations may be materially and adversely affected.

Changes in tax laws and regulations could increase our operating costs.

Our business is categorised as a business encouraged by the PRC 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. Pursuant to a tax notice, Cai Shui [2001] No. 171, we were not liable for income tax in the PRC during the Track Record Period because our income was derived from the forestry business. However, there can be no assurance that the government will continue to offer such tax incentives to our business going forward should their policies change.

Currently, forest products such as our logs benefit from a preferential 13% VAT rate which is applicable to non-small forestry enterprises which turnover have reached a certain level, compared to the standard rate of 17%. During the Track Record Period, Beijing Zhaolin, our predecessor entity, enjoyed a 4% VAT rate. The VAT rate of 4% enjoyed by Beijing Zhaolin was prescribed 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 local tax bureau as part of the dissolution procedures of Beijing Zhaolin, which was dissolved and deregistered on 4 September 2008. 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% from 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. A written confirmation issued by the local tax authorities dated 3 July 2009 confirmed that the VAT rate of Kunming Ultra Big from 1 January 2009 is 3%. However, as our PRC legal advisers have advised that Kunming Ultra Big should be subject to a 13% VAT rate, there is a risk that the tax authority may levy a 13% VAT rate on Kunming Ultra Big and require Kunming Ultra Big to compensate the taxes in arrears. Our PRC legal advisers have advised that the tax authorities having jurisdiction over Kunming Ultra Big may, despite the aforementioned confirmation from 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 between 13% and the VAT rate we actually paid, in our accounts for prudence's sake, and accordingly such provision has been included in our financial statements for the year ended 31 December 2008 and the six months ended 30 June 2009.

Aside from the PRC, the Group also has entities in Hong Kong, the British Virgin Islands and the Cayman Islands. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in these two jurisdictions. No provision for Hong Kong profits tax has been made, as the Group did not have an assessable profits subject to Hong Kong profits tax during the Track Record Period.

If the tax regimes in the PRC, Hong Kong, the British Virgin Islands and Cayman Islands change, our tax liabilities may increase significantly, and our business, financial condition and results of operations may be materially and adversely affected.

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Our revenues are solely dependent on the PRC market.

We have historically focused on a few large customers in the same province as our forests and have not distributed our logs nationally. China is currently our sole market for our products and we have not exported our products to overseas markets. There can be no assurance that local or domestic demand for our products will continue, or that we can successfully expand to markets in other provinces, or even overseas markets, should local or domestic demand decrease. In the event that local or domestic demand for our logs decreases and we cannot expand our business to other markets, our business, financial condition and results of operations may be materially and adversely affected.

Our inability to acquire enough immediately harvestable forests may affect our ability to meet demand.

As at 30 June 2009, our forests covered a gross area of approximately 171,780 hectares. Over 90% of our forests are around 18-60 years old and immediately harvestable, and approximately 10% of our forests is below 18 years old. As it takes years for our newly replanted trees to become mature for harvesting, we rely on acquisitions of new forests to increase our tree supply, particularly new forests which have sufficiently mature trees and are immediately harvestable. However, according to SFA's statistics, the supply of mature trees in the PRC is limited. See "Industry Overview — Forest Resources in China — Distribution of Forests — Age-class structure of China's forest resources". There can be no assurance that we will be able to acquire sufficient immediately harvestable forests in the future to keep up with demand. If we cannot do so, our business, financial condition and results of operation may be materially adversely affected.

Our sales are subject to the continued growth of the construction, furniture and paper industries in China.

A significant proportion of our logs are processed by wood processing factories and ultimately used for construction. If China's construction industry slows down, especially in the key regions or cities in which our main end users are located, the demand for our logs may decrease, thereby having a material adverse effect on our revenues. A smaller proportion of our customers buy our logs for furniture and paper manufacturing. We are similarly exposed to any declines in those industries.

The current global market fluctuations and economic downturn could materially and adversely affect our business, financial condition and results of operations.

The global capital and credit markets have been experiencing extreme volatility and disruption in recent times. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the US mortgage market and a declining residential real estate market in the US and elsewhere have contributed to unprecedented levels of market volatility and diminished expectations for the global economy and the capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. These events have led to a slowdown in the Chinese economy which a number of economists predict could be significant and protracted. As a result, the demand for our products may significantly decrease, thereby materially and adversely affecting our business, financial condition and results of operations.

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Our insurance coverage may not adequately protect us against certain risks.

There may be disruptions to the operations of, or damages or other occurrences to, our existing forests that result from fire, pests, disease, floods, earthquakes, typhoons, wind, hail, snow, drought, landslides or other natural or man-made disasters, environmental pollution, theft of logs, labour stoppages or disturbances, civil unrest and acts of terrorism. Our assets could be affected by these and other catastrophic events over which we have no control.

It is our policy to maintain insurance coverage for all of our forests. For the 2006, 2007 and 2008 financial years and the six months ended 30 June 2009, the insurance premiums we paid amounted to approximately RMB3.0 million, RMB13.3 million, RMB15.9 million and RMB6.0 million, respectively. Each of our insurance policies has a term ranging from one year to four years and, subject to certain conditions, is renewable upon expiration. We purchase insurance coverage for every new forest once we complete its acquisition. However, there is a time gap between completion of our acquisition and the issuance of an insurance policy in respect of a newly acquired forest as the insurance company needs time to assess our newly acquired forest and the related risks. Any damage suffered by us before our purchase or renewal of insurance for any of our forests or before such insurance becoming effective, or in excess of our limited insurance coverage amounts, or in respect of uninsured events, may materially and adversely impact our results of operations.

Some of the above-mentioned risks may cause personal injuries, consequential loss of profits or environmental damage. These may result in disruption of operations and the imposition of civil or criminal penalties upon us, which may not be covered by our insurance policies. Our insurance policy does not generally cover damage to our forests from disease, environmental pollution, and certain natural or man-made disasters (for example, torrential rain, typhoon, war, strike and terrorist activities).

Given the nature of our operations and business, there can be no assurance that our insurance coverage is sufficient to cover all losses relating to our properties and assets. If our insurance is insufficient to cover such losses, our business, financial condition and results of operations may be adversely affected.

Our predecessor company's name has been misused by others.

There have been reports published on websites that Beijing Zhaolin, our predecessor company, was engaged in the trading of forestry rights ("Improper Activity") in Sichuan. We have never engaged in the Improper Activity or consented to the use of Beijing Zhaolin or its name for the Improper Activity. During the Track Record Period, Beijing Zhaolin was the owner of its forestry rights and had never held any of its forestry rights on behalf of any person. We came to be aware that an Independent Third Party ("Misuser"), who had previously proposed to establish some kind of business cooperation with Beijing Zhaolin around early 2006 (which had been subsequently refused by Beijing Zhaolin), had purported to offer such trading on behalf of Beijing Zhaolin in May 2006. The Misuser represented to others that she was engaged in trading of forestry rights on behalf of Beijing Zhaolin. This came to our attention about a week after we believe the Misuser commenced this Improper Activity and we, thereafter, immediately contacted the Misuser. She advised us that she had not yet carried out any actual trading of forestry rights since she started to make such representation to others and assured us she would discontinue the Improper Activity immediately. After receiving such assurances, we continue to monitor the matter and have neither come to be aware of

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continued Improper Activity nor had we been approached in this regard. We have also requested the relevant website operators to remove the inaccurate reports from their websites in July 2008 and published a clarification statement in the Chinese national newspapers on 9 July 2008.

Since the Improper Activity was terminated within about a week from the time we believe it commenced and the Misuser verbally confirmed that she had not carried out any actual trading of forestry rights during such period and had not received any benefit in respect of the Improper Activity, we considered that the risk of us being sued was low, and any further protection that we might receive by reporting the Improper Activity to the relevant government or seeking indemnity/compensation for any possible losses that could arise from such Improper Activity, was minimal, and hence, decided not to take any further action.

After investigation, it was found that the Misuser was associated with Zhengzhou Branch Office of Beijing Zhaolin as its person-in-charge, the entity alleged to be conducting the Improper Activities in the reports ("Unauthorised Branch"). Our PRC legal advisers have advised that it is the directors or shareholders of Beijing Zhaolin who have the power to approve the establishment of a branch office. In respect of the application for establishment of a branch office which must be submitted to the local administration and management bureau of industry and commerce in order to establish a branch office, under the relevant PRC laws and regulations, the legal representative is the only person who has the power to sign the application on behalf of a company.

Mr. Li Kwok Cheong, the legal representative of Beijing Zhaolin, has confirmed that (a) he has never represented Beijing Zhaolin to sign or approve the establishment of Zhengzhou branch office or any other branch offices of Beijing Zhaolin; (b) he has never authorised the Misuser or any other person to sign or approve the establishment of Zhengzhou branch office or any other branch offices of Beijing Zhaolin; (c) Beijing Zhaolin has never participated or entrusted any other person to participate in the Improper Activity; and (d) he has never indicated or consented to, or authorised, or otherwise in any form, appointed the Misuser as the agent of himself or Beijing Zhaolin. No evidence has been found that might indicate that Mr. Li Kwok Cheong's involvement in the establishment of the Unauthorised Branch. Furthermore, based on the internet search of records at the website of the Zhengzhou administration and management bureau of industry and commerce, the business licence of the Unauthorised Branch was revoked in February 2008.

Our PRC legal advisers have advised that, based on the confirmation of Mr. Li Kwok Cheong as mentioned above, unless the other parties to the Improper Activity have valid grounds to believe that the Misuser was acting as the agent of Beijing Zhaolin or the Group in respect of the Improper Activity, neither our Group nor Beijing Zhaolin shall be liable for any contract concluded or activities conducted by the Misuser purportedly in the name of Beijing Zhaolin in respect of the Improper Activity.

As at the Latest Practicable Date, our Group or Beijing Zhaolin has not received any notice of claim or litigation nor was it aware of any pending or threatened claims or litigation against our Group or Beijing Zhaolin in respect of the Improper Activity. As our reputation is important for our business and we do not know whether any evidence will be produced to suggest that the other parties to the Improper Activity have valid reasons to believe that the Misuser was acting as the agent of Beijing Zhaolin or the Group in respect of the Improper Activity, should our name be misused by others again or we receive any claims related to the Improper Activity, our profits and operation results may be materially and adversely affected.

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We have never engaged any environmental consultants to perform soil sampling or to prepare environmental reports of our forests.

It is not part of our practice to hire environmental consultants to prepare environmental reports or take soil samples of our existing forests or of forests that we intend to acquire. Neither do we perform these functions ourselves. Thus, we may not be aware of the existence of environmental pollution or hazardous substances that may be underground or otherwise dormant in our forests, or in the surrounding areas bordering our forests which may impact our forests. Such pollution may not be easily and visibly ascertained by the periodic inspection of our forest workers. As it may be years before dormant environmental problems are uncovered, there is no assurance that our forests may not be adversely affected by such problems should they arise. Such problems may affect the condition of our trees, impact our harvest and revenues, and increase our operating expenses as we may be forced to take costly remedial measures.

We generally do not enter into sales contracts of more than one year with our customers.

Each year, we enter into a master timber sales agreement with each of our long-term customers, setting forth the annual sales volume of timber for the next year, the volume of timber for each delivery, and in some cases, the base price. The base price may be subsequently reviewed and if necessary, adjusted upon each customer order to reflect the then-prevailing market price. Due to factors such as fluctuations in price, supply and demand in the forestry industry as well as our customers' need for flexibility in volume, species and price terms, we generally do not enter into sales contracts of more than one year with customers. There is no assurance that we will maintain or increase our sales to these customers or other large customers at current levels or at all. Any loss of a significant portion of our current sales to our major customers, and our inability to find other customers to replace them, could have a material adverse effect on our business, financial condition and results of operations.

We are heavily dependent on key personnel and consultants.

We are heavily dependent on our executive officers and management for the success of our operations. Our ability to negotiate successfully with the forest owners for our forest rights, and to acquire high quality forests, depends on the skills, relationships, and reputation of our senior management, particularly our chairman, Mr. Li Kwok Cheong and our executive Director, Mr. Li Han Chun.

Mr. Li Kwok Cheong is our executive Director and chairman. He is also the co-founder of our Group and a director of our following subsidiaries: Profit Wise, Sky Famous, Rich Fame, Ultra Big, Fine Fit, China Zhaoneng, Kunming Ultra Big and Chengdu Yishang. Mr. Li Kwok Cheong is mainly responsible for the Group's strategic development and oversees the Group's operations and investments. He is a council member of the CCPEF and had also been a council member of Capital Enterprises Club in China. Mr. Li Han Chun is our executive Director. Mr. Li Han Chun joined our Group in 2004 and is a director of our following subsidiaries: Profit Wise, Sky Famous, Rich Fame, Ultra Big, China Zhaoneng, Fine Fit, Kunming Ultra Big and Chengdu Yishang. He is also the chief executive officer of our Group responsible for the management of our Group's daily operations. Mr. Li Han Chun is a council member of the CCPEF, and was the co-founder and managing director of Creative Energy Solutions Holdings Limited, which was once listed and now delisted on the Growth Enterprise

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Market of Hong Kong Stock Exchange. Mr. Li Han Chun had also served as the marketing manager of Tianjin district at China P&G Company Limited.

We also rely on the expertise and advice of our consultants. Mr. Meng Fan Zhi and Mr. Ma Lu Yi currently act as our forestry consultants, and each of them entered into a consultancy agreement with us in April 2008. Mr. Meng, since 2001, has continually served as the secretary of the CCPEF and has 8 years' experience in forestry industry. As an evidence of his expertise in the industry, Mr. Meng has written books related to forestry in the PRC, namely China Ecological Conservation Theory and the World (中國生態環保理論與世界) published in 2006 and Guide on China Forest Parks and Natural Conservation Districts (中國森林公園與自然保護區覽勝) published in 2008. Mr. Ma is an expert in forestry and the deputy dean of the Graduate school of Beijing Forestry University, and has 17 years' experience in academic research in the management of environment, forestry, and water resources.

Under the consultancy agreements of Mr. Meng and Mr. Ma, they agreed to provide us consulting services in relation to the potential acquisition of forests and the compliance of forestry laws, for a term commencing on 7 April 2008 and ending on April 2011, unless earlier terminated by the consultants due to our unauthorised disclosure of the documents or information owned or provided by them to any third party without their prior consent. As evidence of the consultants' motivation to promote China's forestry industry, according to the consultancy agreements, Mr. Meng and Mr. Ma are not entitled to receive any fees. We do, in practice, reimburse them for expenses reasonably incurred in attending meetings and, where necessary, on-site consultation. The agreements do not obligate our consultants to achieve our profit targets. Other than the membership fee we paid to the CCPEF for being its member, the CCPEF and Beijing Forestry University have not received any fee from us. The consulting services provided by Mr. Meng and Mr. Ma will help us to better understand the PRC forestry industry and assess our position in the forestry industry and our business plans.

If we lose the services of any of our key personnel and/or if we cannot attract or retain quality consultants to advise us, we may lose our competitive advantage and our business could be adversely affected.

We are dependent on the availability of large numbers of workers to perform manual labour.

We rely on large numbers of workers to harvest logs and perform manual labour. As many of our forests are located in remote areas far from population centres, there is a risk that manpower for harvesting logs and for maintaining our forests will not be available on a continuous basis due to factors such as rural-urban migration. We are also vulnerable to labour shortages due to strikes, labour stoppages and civil unrest. Any shortage of labour could increase our costs and reduce our production, which may have a material adverse effect on our business, financial condition and results of operations.

Abnormally high or prolonged levels of rain or snow at our forest locations may adversely impact our ability to harvest trees.

Our harvesting activity is dependent on, among other things, the weather conditions at our forest locations. For safety reasons, we discontinue logging in our Sichuan forests during the rainy season, which is usually from July to September. In Yunnan, unlike in Sichuan where villages are engaged for our harvesting, we use professional harvesting teams for harvesting

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and expect them to continue to log during the rainy season in Yunnan, which usually extends from May to October. Our forests are also subject to snow during the winter. Weather patterns may change in the future due to global environmental and weather conditions. Abnormally prolonged periods of rainfall or snowfall or unusually intense rainfall or snowfall will reduce the volume of logs we are able to extract, which may have a material adverse effect on our business, financial condition and results of operations and our revenues.

Our Controlling Shareholders have and will maintain significant influence over our management and affairs and could exercise this influence against your best interests.

Pursuant to our Articles and applicable laws and regulations, our Controlling Shareholders will be able to exercise significant influence over our Company, including, but not limited to, any shareholder approvals for the election of our Directors and, indirectly, the selection of our senior management, the amount of dividend payments, our annual budget, increases or decreases in our share capital, new securities issuances, mergers and acquisitions and any amendments to our Articles.

In circumstances involving a conflict between the interests of our Controlling Shareholders and our and/or your interests, our Controlling Shareholders may exercise their ability to control us in a manner that would benefit our Controlling Shareholders, to our and/or your detriment. Furthermore, this concentration of ownership may delay or prevent a change of control or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could materially adversely affect the market price of our Shares.

Our forests may not grow in accordance with our expectations.

The success of our business depends in part upon the productivity of our existing and future forests. Growth in forests depend on a number of factors, many of which are beyond our control. These include, but are not limited to, damage by fire, diseases, pests, environmental pollution, and other natural or man-made disasters, as well as silviculture practices, weather, climate, genetic factors, fertilisers used and soil conditions. Our ability to improve the growth speed of our forests will depend on the factors described above as well as our ability to improve planting materials, our ability to identify and grow suitable species of trees and our ability to improve our forest management practices. As a result, there can be no assurance that our forest will grow as we expect. Our future business, financial condition and results of operations may be adversely affected if our forests grow at a slower rate than we expect.

We may not be able to continue to use certain premises.

As at the Latest Practicable Date, our Group leased [6] properties in China — [3] in Yunnan, [2] in Sichuan, and [1] in Beijing, details of which are set out in the section headed “Group III — Property interests rented by the Group” in Appendix IV to this document. Except [1 property in Yunnan] which is used for staff quarters, all of these properties are for office use. As at the Latest Practicable Date, the lessors of [4] of these properties had not yet provided us with the relevant title certificates or other relevant documents evidencing that the lessors have the requisite titles or rights to lease the properties to us, and the tenancy agreements of [all 6] properties had not been registered with the relevant PRC authorities. As advised by our PRC legal advisers, if the lessors do not have title to the properties, or the legal and unfettered rights to lease the properties to us, the validity of the lease agreements is

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uncertain under the PRC laws and regulations. We may therefore be unable to use the relevant properties in the normal course, and may only be entitled to claim loss and damages against the lessors for such loss and damages suffered under such circumstances. Our PRC legal advisers advised that the non-registration of the tenancy agreements will not affect the validity of the relevant tenancy agreements but such tenancy agreements will not be enforceable against bona fide third party so long as such tenancy agreements remain unregistered. Our PRC legal advisers also advised that we may be unable to freely use the leased properties without titles or registration or may be required to move out from these properties. If we are unable to continue to occupy any of these properties or find suitable alternatives, our operations, financial condition and operation results might be affected.

RISKS RELATING TO OUR INDUSTRY

Our forests are in China and are subject to significant PRC regulation. Regulatory changes may adversely affect our forests, our forest rights, and our business, financial condition and results of operations.

Currently all our forest operations are in China and are subject to significant regulation, particularly with respect to our forest rights, which consist of the rights to use the trees, the rights to use the forest land, and the rights to own the trees. Our forest rights are critical to our operations as we must obtain forest rights in order to exploit our forests. In the PRC, all forest lands are owned by the State and the collectives, but the forest rights thereon can be transferred or leased to entities or individuals in accordance with PRC laws. Our forest rights were obtained from the collectives and the individuals (namely the villages and the villagers) and the company who own the forest lands or were provided with the forest rights. We do not own title to the forest land but usage right of the forest land. Our forestry right certificates are subject to a term from 8 to 64 years, with an average term of not less than 20 years. There is no assurance that we can renew our existing forestry right certificates upon expiry, or that we will always obtain or maintain our forest rights due to the continued development of PRC forestry policies. Without forest rights, we will not be able to log or commercially exploit any of our forest assets.

In addition to our forest rights, all of our operations are subject to different national, provincial and local government policies and regulations. For details regarding the regulation of our business activities in the PRC, please see the section headed "Regulatory Overview". Significant regulatory changes in China, including but not limited to, changes in applicable environmental legislation and regulations, tax policies, or any conditions attached to any of our certificates, permits or licenses may have a material adverse effect on our business, financial condition and results of operations.

We face competition from other companies in the forestry industry.

We face many local and overseas competitors who also supply timber to the domestic market. Our primary competitors operate either domestically or within the Asia Pacific region. In particular, we face competition from a host of small logging firms, some of which may not comply with environmental and other industry standards to the same extent as we do, resulting in their potentially lower operating costs.

Competition in our industry is influenced by factors including costs of new forest acquisitions, regulatory compliance, and forest insurance. Some of our competitors may have

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lower costs than we do, or, if their operations are located in less developed countries than China, may be subject to less stringent environmental and other governmental regulations than we are, because of different or regional laws and business practices. If we are unable to compete effectively, or if competition increases in the future, our revenues could decline, and there may be material adverse effects on our business, financial condition, results of operations and cash flows.

The forestry industry is affected by weather conditions and natural and man-made disasters outside of our control.

Our harvesting activities and the growth rate of trees on our forests may be adversely affected by unfavourable local and global weather conditions, including but not limited to drought, floods, prolonged periods of rainfall, hailstorms, windstorms, typhoons and hurricanes, and natural disasters, such as fire, disease, landslides, insect infestation, pests, volcanic eruptions or earthquakes. Our operations may also be adversely affected by man-made disasters, such as environmental pollution, arson, accidents, civil unrest or acts of terrorism. The occurrence of natural or man-made disasters may diminish the supply of logs available for harvesting in our forests, or otherwise impede our logging operations or the growth of trees on our forests, which may have a material adverse effect on our ability to produce our products in sufficient quantities and in a timely manner.

The forestry industry faces competition from wood substitutes.

In addition to competition within the forestry industry, the forest industry faces competition from wood substitutes. We face competition from companies that manufacture wood substitutes, such as imitation wood and other materials that are used as alternative materials mainly in construction and in furniture production. The demand for wood products is also affected by changes in consumer trends and tastes. Preference for wood substitutes among manufacturers, construction companies and consumers could decrease demand for our products and have a material adverse effect on our revenue, financial condition and results of operations.

RISKS RELATING TO CONDUCTING OPERATIONS IN CHINA

All of our business assets are located in China, and all of our sales are conducted in Sichuan and Yunnan. Accordingly, our results of operations, financial position and prospects are subject to a significant degree to the economic, political and legal developments in China and in those provinces.

Political and economic policies of the PRC government may adversely affect our business and results of operations and may affect our ability to sustain our future growth and expansion strategies.

The Chinese economy differs from the economies of most developed countries in many respects, including:

- structure;
- level of government involvement;

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- level of development;
- growth rate;
- level of capital reinvestment;
- control of capital reinvestment;
- foreign currency exchange;
- control of foreign exchange; and
- allocation of resources.

Since 1978, the PRC government has promulgated various reforms of its economic system and government structure. These reforms have resulted in significant economic growth and social progress for China in the last three decades. Many of the reforms are unprecedented or experimental, and such reforms are expected to be modified from time to time. These reforms may have a negative effect on our overall and long-term development and changes in China's political, economic and social conditions, economy and industry policies, laws and regulations may have a material adverse effect on our current or future business, results of operation or financial condition.

Our ability to continue to expand our business is dependent on a number of factors, including general economic and capital market conditions in China. Recently, the PRC government has implemented various measures to control the rate of economic growth and tightened its monetary policies. Economic and market conditions in China that existed over the past three years may not continue and therefore we may not be able to sustain the growth rate we have historically achieved.

As all of our business operations and assets are in China, our business, prospects, financial condition and results of operations may be adversely affected by political, economic and social developments in China, as well as by regional events affecting China, especially in the geographic areas where our forests are located. Such political, economic and social developments include, but are not limited to, changes in government policies, political instability, expropriation, nullification of existing contracts due to change in law, labour activism, war, civil unrest, terrorism, and changes in interest rates, foreign exchange rates, taxation, environmental regulations and import and export duties and restrictions. Any such changes in China may have a material adverse effect on our business, financial condition and results of operation.

Changes in foreign exchange regulations and movement in Renminbi exchange rates may adversely affect our business, our results of operations and our ability to remit dividends.

The value of the Renminbi against other foreign currencies is subject to change as a result of the PRC's policies and international economic and political developments. Effective from 21 July 2005, the Renminbi is no longer pegged solely to the US dollar. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. The exchange rate may become volatile. The Renminbi may be revalued further against the US dollar or other currencies or the

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Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollar or other currencies. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars (which are pegged to the US dollar), of our net assets, earnings or any declared dividends. However, any unfavourable changes in the exchange rate may lead to an increase in our costs or a decline in sales or increase in our loan liabilities (if any), which could adversely affect our operating results. 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. 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. At present, all of our sales are denominated in Renminbi and we believe our exposure to foreign exchange risks is minimal. We have not entered into any agreements to hedge our exchange rate exposure.

In addition, conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. The Renminbi still cannot be freely converted into any other foreign currency. Pursuant to China's current foreign exchange control system, it cannot be guaranteed that under a certain exchange rate, there shall be sufficient foreign exchange to meet the foreign exchange requirement of an enterprise. Under China's current foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the right to carry out foreign exchange business. Foreign exchange transactions under the capital account, however, must be approved in advance by SAFE. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to our Shareholders or satisfy any other foreign exchange requirement. If we fail to obtain the approval from SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our capital expenditure plans, business results and financial conditions, may be materially adversely affected.

Our financial results may be adversely affected by the new PRC EIT Law.

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. 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 and our forestry business falls within this category of business. Therefore our PRC subsidiaries, namely, Kunming Ultra Big and Chengdu Yishang, should be qualified to be exempt from PRC income tax and are currently seeking the tax determination from the tax bureaus. In the event that no tax benefits or preferential tax treatments are granted to them, they will be subject to income tax at a rate of 25%.

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Under the new PRC EIT Law, an enterprise incorporated outside of the PRC may be deemed to be a "non-resident enterprise" or "resident enterprise" according to their definitions thereunder.

We are incorporated under the laws of the Cayman Islands and hold interests in our PRC subsidiaries through BVI companies and Hong Kong companies. Under the new PRC EIT Law and the Implementation Regulations of PRC EIT Law, if we are deemed to be a "non-resident enterprise" without an office or premises in the PRC, a withholding tax at the rate of 10% may be applicable to any dividends paid to us, unless we are entitled to reduction or exemption of such tax, for example pursuant to relevant tax treaties. According to the tax treaties between the PRC and Hong Kong, dividends paid by a foreign-invested enterprise in China to its shareholder(s) in Hong Kong will be subject to a withholding tax at a rate of 5% if the Hong Kong company directly holds a 25% or more interest in that PRC enterprise. If dividends derived from our PRC subsidiaries become subject to withholding tax, our profitability and cash flow may be adversely affected.

Under the new PRC EIT Law, enterprises established under the laws of foreign countries or regions with "de facto management bodies" located within the PRC territory, are considered as "resident enterprises", and will normally be subject to the enterprise income tax at the rate of 25% for China-sourced and overseas-sourced income. According to the Implementation Regulations of PRC EIT Law which was promulgated on 6 December 2007 and came into effect on 1 January 2008, "de facto management bodies" means the bodies which conduct overall management and control of such issues as operation, personnel, finance and assets. Since our management is currently and essentially located in the PRC, if our Group's non-PRC members are treated as "resident enterprises" under the PRC EIT Law: (i) their global income will be subject to the uniform tax rate of 25%; and (ii) any dividends we pay to our overseas enterprise Shareholders and any gains realised by such overseas enterprise Shareholders from the transfer of our Shares may be regarded as China-sourced income, and as a result, become subject to a withholding tax at the rate up to 10%. If our Group's non-PRC members are treated as "resident enterprises" under the PRC EIT Law, our financial results may be materially and adversely affected due to increased tax liability.

Our financial results may be adversely affected by the new PRC Labour Contract Law.

As of 30 June 2009, we employed approximately [400] employees in the PRC. On 29 June 2007, the PRC government promulgated a new labour law, namely, the PRC Labour Contract Law, which became effective on 1 January 2008. Under the PRC Labour Contract Law, when we terminate our PRC employees' employment, we are required to compensate them for such amount which is determined based on their length of service with us. In the event we decide to significantly change or decrease our workforce, the Labour Contract Law could adversely affect our ability to effect these changes cost-effectively or in the manner we desire, which could negatively impact our results of operations.

Interpretation of PRC laws and regulations involves uncertainty that could adversely affect our business and results of operations and the value of our Shares.

Our business and operations in China are governed by the PRC legal system. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with such economic matters as foreign investment, corporate

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organisation and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to us and investors in our Shares. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management attention.

As an investor holding our Shares, you hold an interest in our operations in China through our Company. Our operations in China are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. The company law of the PRC and these regulations, in general, and the provisions for the protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. Therefore, you do not enjoy those shareholder protections that are available in more developed jurisdictions.

It may be difficult to effect service of process upon us or our directors or executive officers who live in China or to enforce against them in the PRC judgments obtained from non-PRC courts.

All of our assets and our subsidiaries are located in China. In addition, most of our Directors and officers reside within China, and the assets of our Directors and officers may also be located mostly within China. As a result, it may not be possible to effect service of process outside China upon most of our Directors and officers, including matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with China or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. Our PRC legal advisers, Commerce & Finance Law Offices, have advised us that China does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States and most other western countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC of court judgements from Japan, the United Kingdom and the United States in relation to any matter not subject to a binding arbitration provision is subject to uncertainties.

The outbreak of any severe contagious diseases in China, if uncontrolled, could adversely affect our results of operations and the price of the Shares.

The outbreak of any severe contagious disease in China, if uncontrolled, could adversely affect the overall business sentiments and environment in China, which in turn may lead to

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slower overall GDP growth in China. As all of our sales are derived from the domestic China market, any contraction or slow down in the GDP growth of China will adversely affect our financial condition, results of operations and future growth. In addition, if any of our employees is infected or affected by any severe communicable diseases outbreak, it could adversely affect or disrupt our production and adversely affect our business operations as we may be required to cease our logging activities to prevent the spread of the disease. The spread of any severe communicable disease in China may also affect the operations of our customers and suppliers, causing delivery disruptions which could in turn adversely affect our operating results and our Share price.

FORWARD-LOOKING STATEMENTS

We have included in this document forward-looking statements, which are, by their nature, subject to risks and uncertainties. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

The forward-looking statements include, without limitation, statements relating to:

- our business strategies;
- our capital expenditure plans;
- our operations and business prospects;
- our financial information and data;
- our dividend policy;
- the regulatory environment as well as the industry outlook generally;
- future developments in our industry; and
- the general economic trend of China.

In some cases, we use the words “aim”, “anticipate”, “believe”, “could”, “expect”, “intend”, “may”, “plan”, “potential”, “project”, “seek”, “should”, “will”, “would” and similar expressions to identify forward-looking statements. All the statements in this document that do not relate to past facts (including the statements regarding our strategies, costs and plans and objectives of our management for future operations) are all forward-looking statements.

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control.

Because of such risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

DIRECTORS

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Li Kwok Cheong	21A, Building 2 Guangcai International Mansion 18 Gongti Xilu Chaoyang District Beijing, PRC	Chinese
Li Han Chun	B-15H 9 Xiaoying Road Chaoyang District Beijing, PRC	Chinese
<i>Non-Executive Directors</i>		
Xiao Feng	7-2-2905 Green Lake International Apartment Chaoyang District Beijing, PRC	Chinese
Li Zhi Tong	Flat 11D, Building 5 Shi Ji Cheng District 6 Si Ji Qing Xiang Haidian District Beijing, PRC	Chinese
<i>Independent Non-Executive Directors</i>		
Wong Tak-jun	Flat 2B, Residence 4 The Chinese University of Hong Kong Shatin, Hong Kong	US
Wang Wei Ying	No. 1101 Unit 5, Building 6 Yuhui East Road Chaoyang District Beijing, PRC	Chinese
Liu Can	No. 13, Unit 1, Building 17 Shenggunanli Chaoyang District Beijing, PRC	Chinese

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and Principal Place of Business in the PRC	2301, 23rd Floor Tower B Vantone Centre Jia 6 Chaowaidajie Chaoyang District Beijing, PRC
Principal Place of Business in Hong Kong	Room 2507, 25th Floor Bank of America Tower 12 Harcourt Road Hong Kong
Website Address	www.chinaforestryholding.com ^(Note)
Company Secretary	Tong Wai Kit, Raymond (ACCA, CPA)
Qualified Accountant	Tong Wai Kit, Raymond (ACCA, CPA)
Authorised Representatives	Li Han Chun B-15H, 9 Xiaoying Road Chaoyang District Beijing 100101 PRC Tong Wai Kit, Raymond Room 610, 6/F, Tai Hang Terrace 5 Chun Fai Road Hong Kong
Audit Committee	Wong Tak-jun (Chairman) Wang Wei Ying Liu Can
Remuneration Committee	Wong Tak-jun (Chairman) Wang Wei Ying Xiao Feng
Nomination Committee	Li Han Chun (Chairman) Wang Wei Ying Liu Can
Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands

Note: Our website and all of the information contained on our website do not form part of this document.

CORPORATE INFORMATION

**Hong Kong Share
Registrar**

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

Principal Bankers

Huaxia Bank Kunming Branch
Hua Xia Building
98 Weiyuan Street
Kunming
PRC

China Construction Bank Sichuan Branch
Minxing Finance Tower
No. 86 Tidu Street
Chengdu
PRC

Compliance Adviser

[●]

INDUSTRY OVERVIEW

INTRODUCTION

The global forestry industry provides timber resources and processed wood products for various industries. The industry is generally divided into upstream and downstream activities. Upstream activities focus on forest resource management including forest planning, planting, stand tending and/or management of the forest as well as harvesting and transportation of logs. The wood-based downstream activities consist of processing of logs into products such as sawn timber, plywood, veneer, reconstituted panel products, pulp and paper, as well as further value-added processing activities such as production of mouldings and other housing and building materials including flooring and furniture.

GLOBAL FOREST RESOURCES

Overview

Forest is defined in the FAO's Global Forest Resources Assessment 2005 as land spanning more than 0.5 hectares with trees higher than 5 m and a canopy cover of more than 10%, or trees able to reach these thresholds in situ. It does not include land that is predominantly under agricultural or urban land use. According to the FAO, total world forest area as at 2005 is estimated at 3,952 million hectares, or approximately 30% of total land area, which corresponds to an average of 0.6 hectares per capita.

Distribution of forests

A subregional summary of the distribution of forests is shown in the table below. Europe accounts for one-quarter of total forest area, followed by South America and North and Central America with 21.0% and 17.9% respectively.

Distribution of forests by subregion 2005

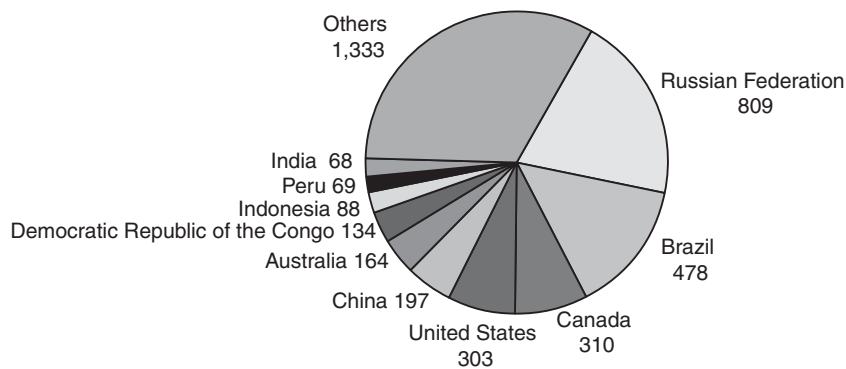
<u>Region/subregion</u>	<u>Forest area (1 000 hectares)</u>	<u>% of global forest area</u>
Eastern and Southern Africa	226,534	5.7%
Northern Africa	131,048	3.3%
Western and Central Africa	277,829	7.0%
Total Africa	635,412	16.1%
East Asia	244,862	6.2%
South and Southeast Asia	283,127	7.2%
Western and Central Asia	43,588	1.1%
Total Asia	571,577	14.5%
Total Europe	1,001,394	25.3%
Caribbean	5,974	0.2%
Central America	22,411	0.6%
North America	677,464	17.1%
Total North and Central America	705,849	17.9%
Total Oceania	206,254	5.2%
Total South America	831,540	21.0%
World	3,952,025	100%

Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

The area of forest is unevenly distributed in the world. The ten most forest-rich countries account for approximately two-thirds of total forest area (see the diagram below).

**Ten countries with largest forest area 2005
(million hectares)**

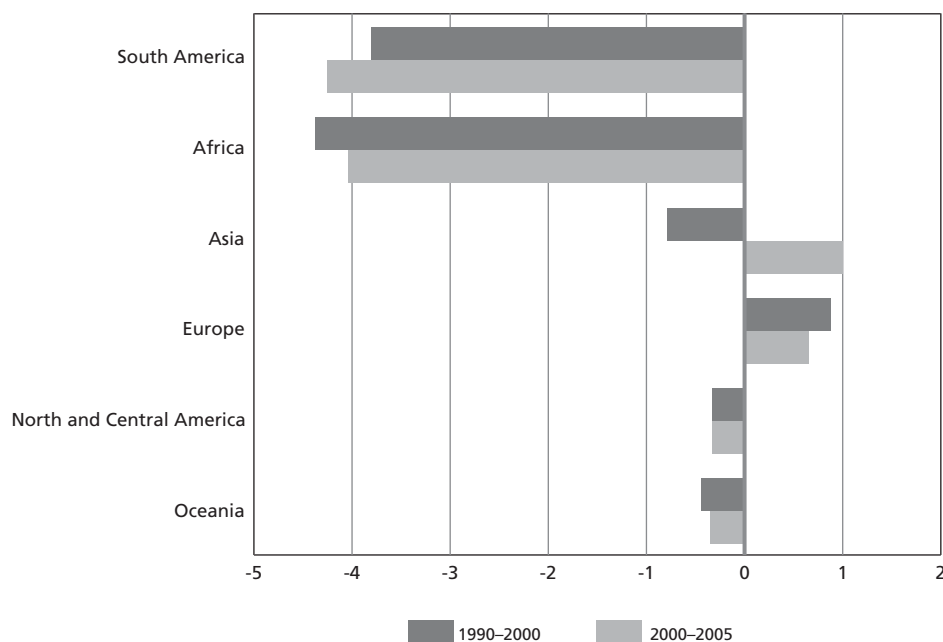


Source: FAO's Global Forest Resources Assessment 2005

Changes of forest area

Global forest area continued to decrease during 1990-2005 but the rate of net loss was slowing. Deforestation, mainly conversion of forests to agricultural land, continued at an alarmingly high rate — about 13 million hectares per year. At the same time, forest planting, landscape restoration and natural expansion of forests have significantly reduced the net loss of forest area. Net loss in forest area in the period 2000–2005 is estimated at 7.3 million hectares per year, down from 8.9 million hectares per year in the period 1990–2000. Regional changes of forest area is shown in the diagram below.

**Annual net change in forest area by region 1990–2005
(million hectares per year)**



Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

The ten countries with the largest net loss per year in the period 2000–2005 had a combined net loss of forest area of approximately 8.2 million hectares per year. On the net gain side, the ten countries with the largest net gain per year for the same period had a combined net gain of forest area of approximately 5.1 million hectares per year due to afforestation efforts and natural expansion of forests. The large increase in forest area for China was due to recent, large-scale afforestation programmes.

Ten countries with largest annual net loss in forest area 2000-2005

<u>Country</u>	<u>Annual Change (1 000 hectares/year)</u>
Brazil	-3,103
Indonesia	-1,871
Sudan	-589
Myanmar	-466
Zambia	-445
Tanzania	-412
Nigeria	-410
Congo	-319
Zimbabwe	-313
Venezuela	-288
Total	-8,216

Source: FAO's Global Forest Resources Assessment 2005

Ten countries with largest annual net gain in forest area 2000-2005

<u>Country</u>	<u>Annual Change (1 000 hectares/year)</u>
China	4,058
Spain	296
Vietnam	241
United States	159
Italy	106
Chile	57
Cuba	56
Bulgaria	50
France	41
Portugal	40
Total	5,104

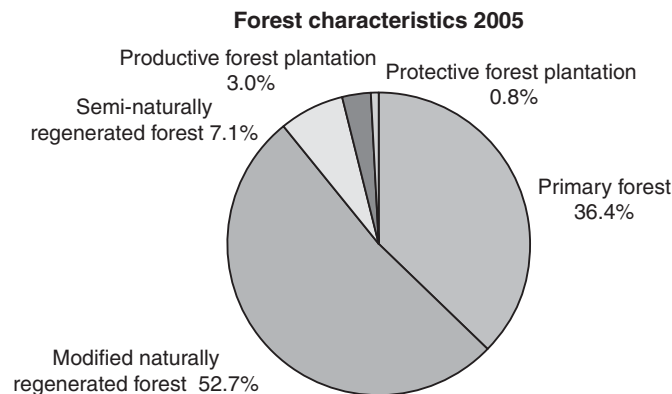
Source: FAO's Global Forest Resources Assessment 2005

Forest characteristics

According to the FAO's Global Forest Resources Assessment 2005, more than one-third (36.4%) of global forest area is classified as primary forest, i.e. forest of native species, in which there are no clearly visible indications of human activity and ecological processes are not significantly disturbed. The largest expanse of primary forest is found in South America (the Amazon). Countries in North and Central America and the Russian Federation have also

INDUSTRY OVERVIEW

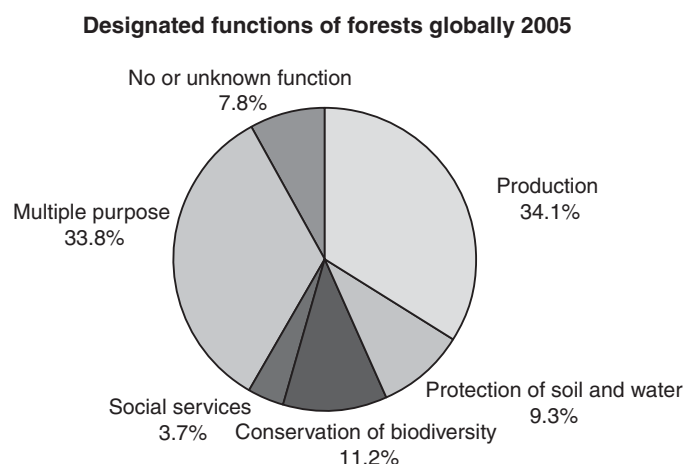
classified a relatively high proportion of their forests as primary. Slightly more than half of all forests (52.7%) are considered modified naturally regenerated forests (i.e. forests of naturally regenerated native species in which there are clearly visible indications of human activity) and 7.1% are classified as semi-naturally regenerated forests (i.e. forests comprising native species, established through planting, seeding or assisted natural regeneration). Forest plantations (i.e. forests of introduced species, and in some cases native species, established through planting or seeding) constitute an estimated 4% of forest area, classified either as productive (3% of total forest area) or protective (0.8% of total forest area).



Source: FAO's Global Forest Resources Assessment 2005

Designated functions of forests

In 2005, about one-third of the world's forests were primarily for production of wood and non-wood forest products, 11.2% for the conservation of biodiversity and 9.3% for protection of soil and water.



Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

Forest designated for production

At the global level, in 2005, 34% of total forest area had production designated as its main purpose. The table below shows a summary by region/subregion of the 2005 status of these areas.

Area of forest designated primarily for production in 2005

Region/subregion	Area of forest designated primarily for production	
	1 000 hectares	% of forest area
Eastern and Southern Africa	41,051	19%
Northern Africa	44,185	35%
Western and Central Africa	52,796	45%
Total Africa	138,032	30%
East Asia	125,488	51%
South and Southeast Asia	120,098	42%
Western and Central Asia	9,674	22%
Total Asia	255,260	45%
Total Europe	724,308	73%
Caribbean	980	28%
Central America	3,312	15%
North America	40,499	6%
Total North and Central America	44,790	6%
Total Oceania	22,449	11%
Total South America	96,346	12%
World	1,281,185	34%

Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

Productive forest plantations

Productive forest plantations are defined in the FAO's Global Forest Resources Assessment 2005 as forest plantations predominantly intended for provision of wood, fibre and non-wood forest products.

The total area of productive forest plantations reported in 2005 was about 109 million hectares, which corresponds to approximately 3% of the global forest area. The area by region and subregion is presented in the following table.

Area of productive forest plantations in 2005

<u>Region/subregion</u>	<u>Area of productive forest plantations</u>	
	<u>1 000 hectares</u>	<u>% of forest area</u>
Eastern and Southern Africa	2,792	1.3%
Northern Africa	6,033	5.1%
Western and Central Africa	1,939	1.9%
Total Africa	10,764	2.5%
East Asia	30,006	12.3%
South and Southeast Asia	11,825	4.2%
Western and Central Asia	2,591	5.9%
Total Asia	44,422	7.8%
Total Europe	21,469	2.2%
Caribbean	280	6.9%
Central America	240	1.1%
North America	17,133	2.5%
Total North and Central America	17,653	2.5%
Total Oceania	3,833	1.9%
Total South America	11,326	1.4%
World	109,469	3.0%

Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

In terms of annual increase in productive forest plantations, China ranked the first for the period 2000-2005, followed by the Russian Federation and the United States. These three countries together accounted for approximately 82% of the global annual increase in productive forest plantations. The ten countries with the largest area of production forest plantations are shown in the table below.

Ten countries with greatest annual increase in productive forest plantations area 1990–2005

Country	Area of productive forest plantations (1 000 hectares)			Annual change (1 000 hectares)	Annual change rate (%)
	1990	2000	2005	2000-2005	2000-2005
China	17,131	21,765	28,530	1,353	5.6
Russian Federation	9,244	10,712	11,888	235	2.1
United States	10,305	16,274	17,061	157	0.9
Vietnam	664	1,384	1,792	82	5.3
Indonesia	2,209	3,002	3,399	79	2.5
Chile	1,741	2,354	2,661	61	2.5
Australia	1,023	1,485	1,766	56	3.5
Portugal	383	867	1,067	40	4.2
Republic of Korea	748	1,188	1,364	35	2.8
Turkey	1,459	1,763	1,916	31	1.7

Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

Commercial growing stock

The amount of commercial growing stock in the world reached 202,325 million m³ in 2005, which represented about 47% of total growing stock. The trends for commercial growing stock are shown in the table below. At the global level, the percentage of commercial growing stock remained constant except for a small decrease in Europe during 1990-2000.

Trends in commercial growing stock 1990-2005

Region/subregion	Commercial growing stock					
	Million m ³			% of total growing stock		
	1990	2000	2005	1990	2000	2005
Eastern and Southern Africa	2,519	2,321	2,234	23	22	22
Northern Africa	754	762	767	27	29	30
Western and Central Africa	13,336	13,162	13,407	24	25	26
Total Africa	16,609	16,245	16,408	24	25	25
East Asia	14,013	15,976	17,065	88	87	86
South and Southeast Asia	12,705	9,717	8,160	39	36	34
Western and Central Asia	1,813	1,867	1,890	61	60	60
Total Asia	28,531	27,561	27,115	55	56	58
Total Europe	66,063	60,648	61,245	65	58	57
Caribbean	175	245	283	53	61	64
Central America	717	599	563	20	19	19
North America	64,816	66,376	66,968	89	89	89
Total North and Central America	65,709	67,220	67,815	86	86	86
Total Oceania	3,849	3,777	3,751	51	51	51
Total South America	28,059	26,666	25,992	20	20	20
World	208,820	202,116	202,325	47	46	47

Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

GLOBAL TIMBER MARKET

Consumption

ITTO's members represent approximately 80% of the world's tropical forests and represent about 90% of the global tropical timber trade. According to the ITTO 2008 Report, consumption of timber by its members increased from 1.75 billion m³ in 2004 to an estimated 1.79 billion m³ in 2008. The table below shows the total timber consumption by all ITTO members.

Consumption of all timber by ITTO members (1000 m³)

	2004	2005	2006	2007	2008 (estimate)
Logs	1,311,740	1,355,952	1,319,850	1,345,827	1,361,050
Sawnwood	362,730	369,518	371,537	362,484	349,650
Veneer	10,008	9,793	9,781	9,624	9,600
Plywood	66,769	68,252	67,433	73,075	74,172

Source: ITTO 2008 Report

Production

On the production side, production of timber by ITTO members increased from 1.67 billion m³ in 2004 to an estimated 1.73 billion m³ in 2008. The table below shows the total timber production by all ITTO members.

Production of all timber by ITTO members (1000 m³)

	2004	2005	2006	2007	2008 (estimate)
Logs	1,250,391	1,292,731	1,254,750	1,280,453	1,309,455
Sawnwood	348,898	357,090	363,318	354,473	336,343
Veneer	10,416	10,496	10,408	10,258	10,241
Plywood	65,080	68,595	69,423	76,060	76,033

Source: ITTO 2008 Report

Major timber consuming / producing countries

According to ITTO's forecast for 2008, the United States is the largest ITTO consuming member in logs and sawnwood (its consumption in these categories accounts for 28.5% and 29.1% respectively in their respective ITTO total consumption) and is the second largest ITTO consuming member in plywood (22.7% of ITTO total plywood consumption). China is also one of the largest timber consuming countries — among all the ITTO members, its consumption estimate for 2008 ranks the third for logs, the second for sawnwood, the first for veneer and plywood, and in terms of percentage of ITTO total consumption, represents 7.1%, 11.0%, 30.7% and 37.9% respectively in their respective categories.

INDUSTRY OVERVIEW

On the production side, the United States is the largest ITTO producing member in logs and sawnwood with its production accounting for 30.3% and 22.4% respectively of ITTO total production in their respective categories. Canada is also one of the largest timber producing countries. Canada's production in logs, sawnwood and veneer ranks the second among all the ITTO members with its production accounting for 15.4%, 13.7% and 5.9% respectively of the ITTO total production in their respective categories. China's production in veneer and plywood ranks the first among all the ITTO members representing 29.3% and 46.8% respectively of the ITTO total production in their respective categories.

The tables below set out the five largest consuming / producing ITTO members in logs, sawnwood, veneer and plywood.

Top five logs consuming/producing ITTO members

<u>Country</u>	<u>Forecast for logs consumption in 2008 (1000 m³)</u>	<u>% of total logs consumption by all ITTO members</u>	<u>Country</u>	<u>Forecast for logs production in 2008 (1000 m³)</u>	<u>% of total logs production by all ITTO members</u>
United States	387,392	28.5%	United States	396,358	30.3%
Canada	203,230	14.9%	Canada	201,254	15.4%
China	97,167	7.1%	Sweden	68,040	5.2%
Sweden	72,525	5.3%	China	67,700	5.2%
Finland	72,234	5.3%	Germany	67,087	5.1%
All ITTO members	1,361,050	100%	All ITTO members	1,309,455	100%

Source: ITTO 2008 Report

Top five sawnwood consuming/producing ITTO members

<u>Country</u>	<u>Forecast for sawnwood consumption in 2008 (1000 m³)</u>	<u>% of total sawnwood consumption by all ITTO members</u>	<u>Country</u>	<u>Forecast for sawnwood production in 2008 (1000 m³)</u>	<u>% of total sawnwood production by all ITTO members</u>
United States	101,758	29.1%	United States	75,291	22.4%
China	38,444	11.0%	Canada	46,000	13.7%
Canada	23,684	6.8%	China	32,200	9.6%
Germany	18,760	5.4%	Germany	24,600	7.3%
Japan	18,673	5.3%	Sweden	17,210	5.1%
All ITTO members	349,650	100%	All ITTO members	336,343	100%

Source: ITTO 2008 Report

INDUSTRY OVERVIEW

Top five veneer consuming/producing ITTO members

Country	Forecast for veneer consumption in 2008 (1000 m ³)	% of veneer consumption by all ITTO members	Country	Forecast for veneer production in 2008 (1000 m ³)	% of veneer production by all ITTO members
China	2,945	30.7%	China	3,000	29.3%
Republic of Korea	736	7.7%	Canada	600	5.9%
Italy	607	6.3%	New Zealand	513	5.0%
Germany	435	4.5%	Republic of Korea	481	4.7%
New Zealand	412	4.3%	Italy	470	4.6%
All ITTO members	9,600	100%	All ITTO members	10,241	100%

Source: ITTO 2008 Report

Top five plywood consuming/producing ITTO members

Country	Forecast for plywood consumption in 2008 (1000 m ³)	% of plywood consumption by all ITTO members	Country	Forecast for plywood production in 2008 (1000 m ³)	% of plywood production by all ITTO members
China	28,123	37.9%	China	35,616	46.8%
United States	16,825	22.7%	US	11,986	15.8%
Japan	6,852	9.2%	Japan	3,101	4.1%
Canada	2,877	3.9%	Canada	2,000	2.6%
Republic of Korea	2,118	2.9%	Finland	1,410	1.9%
All ITTO members	74,172	100%	All ITTO members	76,033	100%

Source: ITTO 2008 Report

FOREST RESOURCES IN CHINA

Overview

According to the FAO's Global Forest Resources Assessment 2005, China has approximately 197 million hectares of forest and ranks the fifth in the world after Russian Federation, Brazil, Canada and US. However, China's forest area per capita is approximately 0.2 hectare, only about 33.3% of the global average (approximately 0.6 hectare) and is much lower than the other four largest forest area countries (Russian Federation: 5.7 hectares, Brazil: 2.5 hectares, Canada: 9.7 hectares, US: 1.0 hectare).

China's forest area, in terms of percentage of land area, is 21.2% and is much lower than the world average (30.3%) as well as the other four largest forest area countries (Russian Federation: 47.9%, Brazil: 57.2%, Canada: 33.6%, US: 33.1%).

The forest growing stock in China is, by area, 67 m³ per hectares, which is only about 60.9% of the global average (110 m³ per hectares) and is much lower than the other four largest forest area countries (Russian Federation: 100 m³ per hectares, Brazil: 170 m³ per hectare, Canada: 106 m³ per hectare, US: 116 m³ per hectare).

INDUSTRY OVERVIEW

Comparison of China's forest area and growing stock with the world and the four largest forest area countries 2005

	Forest area (1000 hectares)	Forest area as % of total land	Forest area per capita (hectares)	Forest growing stock by area (m ³ /hectare)
Russian Federation	808,790	47.9%	5.7	100
Brazil	477,698	57.2%	2.5	170
Canada	310,134	33.6%	9.4	106
US	303,089	33.1%	1.0	116
China	197,290	21.2%	0.2	67
World	3,952,025	30.3%	0.6	110

Source: FAO's Global Forest Resources Assessment 2005, World Bank, US Census Bureau, Statistics Canada

Distribution of forests

According to the SFA's Report on Basic Facts of China's Forestry 2005, in terms of geographical distribution, China's forests are abundant in the north-east and south-west areas but are scarce in other areas such as the north and north-west areas. The gross forest area in Heilongjiang, Jilin, Inner Mongolia, Sichuan, Yunnan and Tibet accounts for 51.4% of the national forest area and 70% of the national forest stock.

The following table sets out the top five provinces in China by forest area:

<u>Province</u>	<u>Area of forest (1000 hectares)</u>
Inner Mongolia	20,506.7
Heilongjiang	17,975.0
Yunnan	15,600.3
Sichuan	14,643.4
Tibet	13,896.1

Source: China Forestry Statistical Yearbook 2007

The following table sets out the top five provinces in China by forest stock volume:

<u>Province</u>	<u>Forest stock volume (1000 m³)</u>
Tibet	2,266,064
Sichuan	1,495,434
Yunnan	1,399,292
Heilongjiang	1,375,023
Inner Mongolia	1,101,532

Source: China Forestry Statistical Yearbook 2007

INDUSTRY OVERVIEW

For the age class of the forest resources, the young and middle-aged forests has a larger proportion in China's forests, and accounts for approximately 67.9% of national forest area.

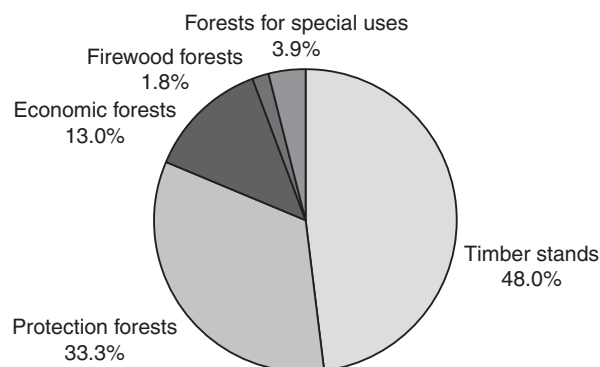
Age-class structure of China's forest resources

	Forest area (1000 hectares)	% of total	Forest stock (1000 m ³)	% of total
young forest	47,238	33.1%	1,284,966	10.6%
middle-aged forest	49,644	34.8%	3,425,722	28.3%
near-mature forest	19,987	14.0%	2,245,510	18.6%
mature forest	17,148	12.0%	3,016,610	24.9%
over-mature forest	8,770	6.1%	2,124,829	17.6%
Total	142,787	100%	12,097,637	100%

Source: SFA's Major Results of the Sixth National Forest Resources Survey

According to the functional categorisation of forests by SFA, China has timber stands of 78.6 million hectares (48.0%), protection forests of 54.7 million hectares (33.3%), economic forests of 21.4 million hectares (13.0%), firewood forests of 3.0 million hectares (1.8%) and forests for special uses of 6.4 million hectares (3.9%).

Functional categorisation of China's forests by SFA



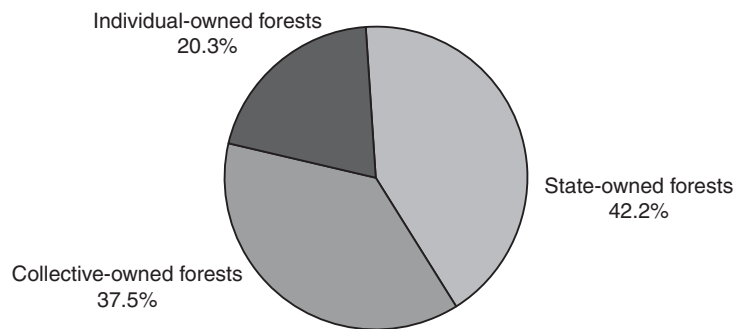
Source: The SFA's Report on Basic Facts of China's Forestry 2005

For the tree species distribution, according to the SFA's Major Results of the Sixth National Forest Resources Survey, oak trees, masson pine, fir, birch and larch represent a large proportion in both area and forest stock of China's forests. The gross area of these trees is 71.3 million hectares (49.9% of total forest area) and their forest stock amounts to 4.5 billion m³ (37.1% of total forest stock).

INDUSTRY OVERVIEW

In terms of ownership distribution, China has state-owned forests of approximately 72.9 million hectares (42.2%), collective-owned forests of 64.8 million hectares (37.5%) and individual-owned forests of 35.1 million hectares (20.3%).

Ownership distribution of China's forests



Source: SFA's Report on Basic Facts of China's Forestry 2005

Changes of forest area

According to the FAO's Global Forest Resources Assessment 2005, due to China's large-scale afforestation, China's forest area increased from 157 million hectares in 1990 to 197 million hectares in 2005. The net gain was 4 million hectares per year during the period 2000-2005 and the annual change rate was 2.2%. The table below compares the changes of forest area in China and the world.

Comparison of changes of forest area in China and the world

	Forest area (1000 hectares)			Annual change rate			
	1990	2000	2005	1990-2000		2000-2005	
				1000 hectares	%	1000 hectares	%
China	157,141	177,001	197,290	1,986	1.2%	4,058	2.2%
World	4,077,291	3,988,610	3,952,025	-8,868	-0.2%	-7,317	-0.2%

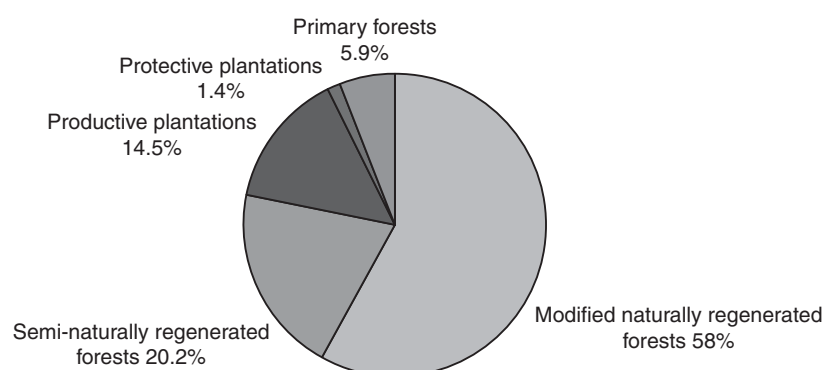
Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

Forest characteristics

According to the FAO's Global Forest Resources Assessment 2005, about 58% of the forest in China is modified naturally regenerated forest covering 114.3 million hectares. The semi-naturally regenerated forest has 40 million hectares accounting for 20.2% of total forest area. The forest plantations covers 15.9% of total forest area which are further divided into productive plantation (28.5 million hectares, 14.5%) and protective plantation (2.8 million hectares, 1.4%) and primary forest, which has 11.6 million hectares covering 5.9% of total forest area.

Forest characteristics in China 2005



Source: FAO's Global Forest Resources Assessment 2005

The forest plantations in China were increasing. Its area increased from 18.5 million hectares in 1990 to 31.4 million hectares in 2005 and in terms of percentage of total forest area, from 11.8% to 15.9%. The annual gain was 1.5 million hectares per year during 2000-2005.

Change in extent of forest plantations in China 1990-2005

1990		Area of forest plantations		2005		Annual change rate (per year)	
1000 hectares	% of total forest area	1000 hectares	% of total forest area	1000 hectares	% of total forest area	1990-2000 (1000 hectares)	2000-2005 (1000 hectares)
18,466	11.8%	23,924	13.5%	31,369	15.9%	545.8	1,489

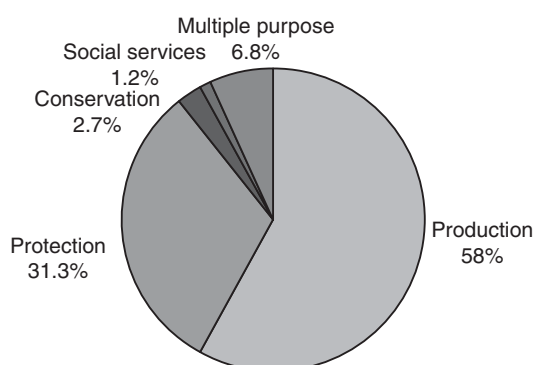
Source: FAO's Global Forest Resources Assessment 2005

INDUSTRY OVERVIEW

Designated functions of forests

According to the FAO's Global Forest Resources Assessment 2005, in terms of primary functions of forest in China, more than half of the forest is designated for production (58%) and about a third for protection (31.3%). The other designated functions are conservation (2.7%), social services (1.2%) and multiple purpose (6.8%).

Designated functions of forests in China 2005



Source: FAO's Global Forest Resources Assessment 2005

Commercial growing stock

According to the FAO's Global Forest Resources Assessment 2005, China's forest has approximately 12,168.1 million m³ of commercial growing stock, accounting for 91.8% of total forest growing stock in China.

TIMBER MARKET IN CHINA

Some of the information set out below is sourced from an independent technical report prepared by CFK. We have commissioned CFK, our technical consultant and an Independent Third Party, to prepare an independent report on our forestry operations, which is reproduced in Appendix V to this document. CFK is a consulting firm focusing on the forestry industry. We have also engaged CFK to prepare valuation reports for our forestry assets in compliance with IAS 41. The amount of fees payable to CFK in relation to these engagements, which is US\$[●] in total, is not contingent on our approval for its work. Investors should note the scope of work, report qualifications and assumptions of CFK's independent technical report which are set out in the introductory section of the report at pages V-1 to V-3.

The qualifications and assumptions in CFK's independent technical report include the following:

- CFK has undertaken limited visual inspection of the forests on various occasions in 2008 and during March 2009.
- CFK did not undertake any new inventory nor was it able to independently verify the forest area description.
- CFK undertook site inspections which can only provide an indicative subjective assessment of the quality of the forest resource and the likely wood flows. CFK assumes that the sites visited were broadly representative of the forest estate as a whole.

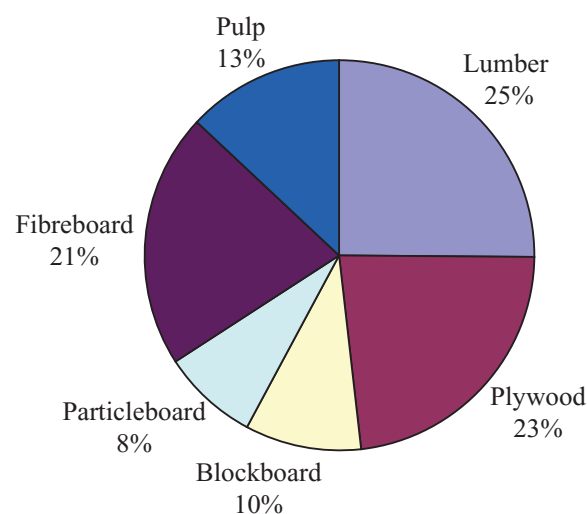
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- CFK did not undertake a full scale review of the existence of any hazardous substances or other adverse environmental conditions that may or may not be present in the Group's forest.
- CFK is not expert in and expresses no opinion on legal or accounting matters assumed for the purposes of its report.
- CFK has relied on the accuracy and completeness of the forest inventory, operating costs and other data supplied by us.
- CFK has reviewed the information supplied by us and believe that it is consistent with the information and knowledge that it has on our forests.
- While CFK has compared the key information provided by us with its own research, the accuracy of the results and conclusions of the report are reliant on the accuracy of the information provided by us.
- The actual wood flows, production volumes, and conditions of our forests may differ from that set forth in CFK's independent technical report. The degree of uncertainty increases with each year presented. If actual wood flows, production volume and forest conditions are less favourable than those shown or if the assumptions used in formulating the projections prove to be incorrect, our business and results of operations may differ from the projections.

Overview

Firewood is the dominant use for wood in China accounting for an estimated 58% of the total wood removals. The balance can be considered industrial wood. There are two basic categories of industrial wood. The first category consists of posts, poles and unprocessed wood used in construction and for rural wood use (excluding firewood). Most of this category of industrial wood does not enter the industrial supply chain as it is often acquired, processed and used by individuals and not re-sold or marketed through traditional channels. The second category of industrial wood refers to wood that is utilised in the manufacture of processed products (e.g. plywood, lumber, pulp and paper). The chart below shows the second category of industrial wood consumption in China in 2008.

Chinese Industrial Log Demand By Sector (2008)



Source: SFA, CFK

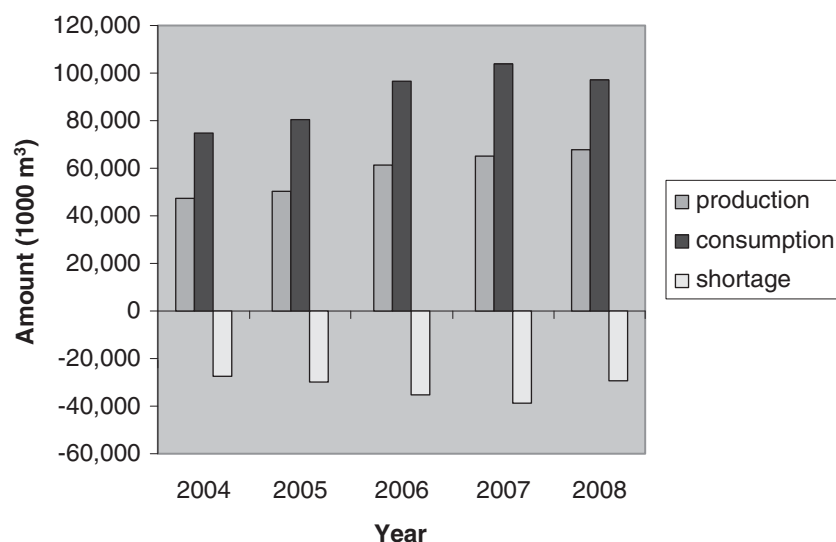
INDUSTRY OVERVIEW

The largest industrial wood consuming sector is "Other" which accounts for about 26% of the industrial lumber consumption. This sector includes posts and poles, unprocessed wood for construction, and rural wood consumption (excluding firewood). Most of this wood does not enter the industrial wood supply chain as it is often acquired, processed and used by individuals and not resold or marketed through traditional channels. Excluding "Other" from the analysis, panel production accounts for almost 62% of the industrial wood consumption in China.

Production and consumption of primary timber products in China

Based on the ITTO 2008 Report, it is forecast that China will have a shortage (namely the excess of its domestic consumption over its production) of 29.5 million m³ logs and 6.2 million m³ sawnwood in 2008. Compared with the shortage figure in 2004 which is 27.6 million m³, the shortage of logs in 2008 has increased by about 6.9%. The tables below show the shortage of logs and sawnwood in China.

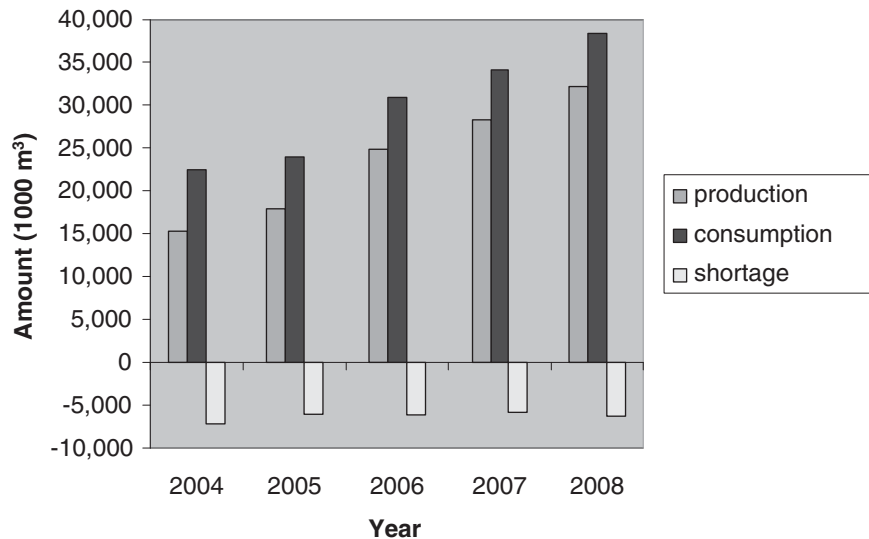
**Production, consumption and shortage of logs in China
2004-2008 (2008 are estimates)**



Source: ITTO 2008 Report

INDUSTRY OVERVIEW

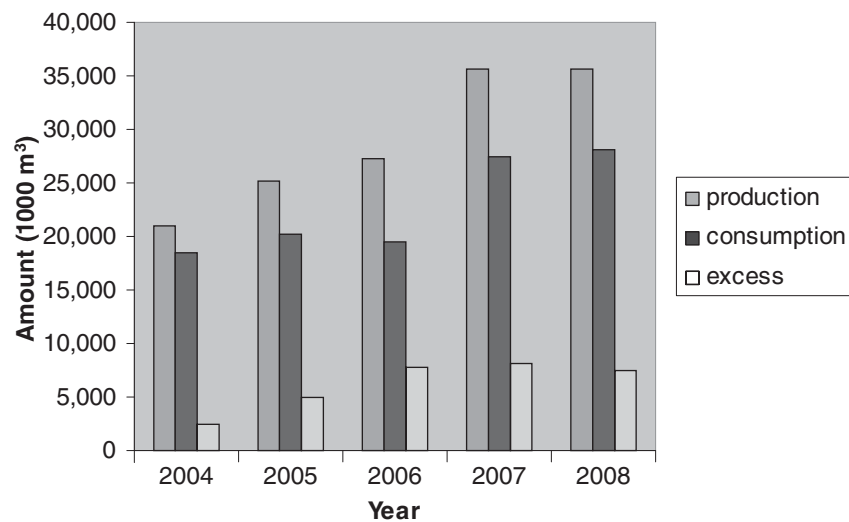
Production, consumption and shortage of sawnwood in China 2004-2008 (2008 are estimates)



Source: ITTO 2008 Report

As for plywood and veneer, based on the ITTO 2008 Report, China's production of plywood and veneer for 2008 is forecast to exceed consumption by 7.5 million m³ and 55,000 m³, respectively.

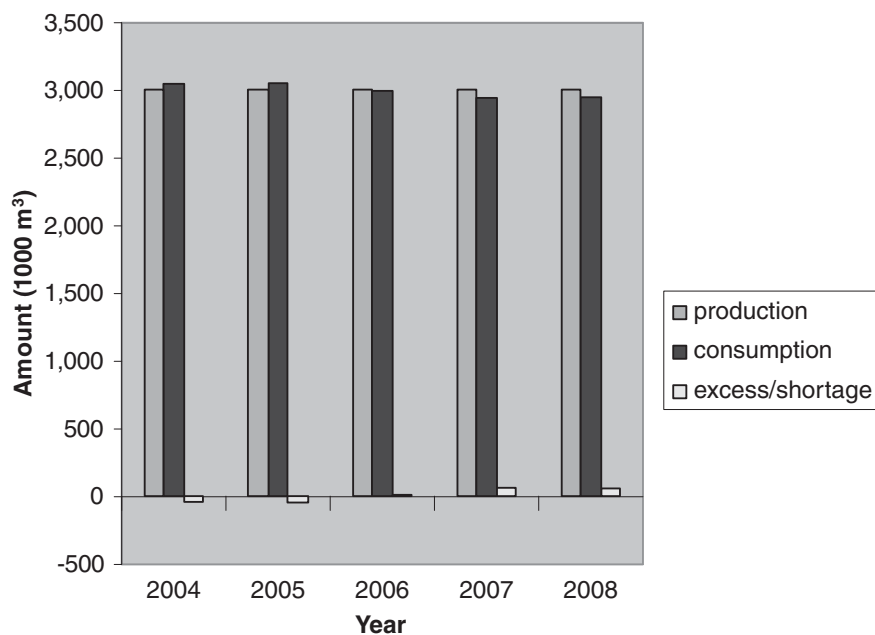
Production, consumption and excess of plywood in China 2004-2008 (2008 are estimates)



Source: ITTO 2008 Report

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Production, consumption and shortage/excess of veneer in China 2004-2008 (2008 are estimates)



Source: ITTO 2008 Report

Imports and exports of timber products in China in the first quarter of 2009

The following information about imports and exports of timber products in China for the first quarter of 2009 is extracted from the ITTO's Tropical Timber Market Report (Volume 14 Number 9, 1-15 May 2009).

Affected by the global economic crisis, China's foreign trade in major forest products fell considerably in the first quarter of 2009. This was mainly due to shrinking markets of developed economies such as Europe, the US and Japan, which are the main export markets of China. The statistics from China Customs have shown China's total import and export trade value of major forest products to have declined for two successive quarters to only US\$11.8 billion in the first quarter of 2009, down 18.9% from the same period of last year. Of the total, the country's import value was US\$4.8 billion, down 27.8%, and the export value was US\$6.9 billion, down 11%. The favourable trade balance continued to climb, however, and reached US\$2.1 billion, up US\$968 million compared with US\$1.1 billion in the same period of last year.

Imports

(1) Logs

A total of 5.6 million m³ of logs were imported by China in the first quarter of 2009 valued at about US\$793.9 million, down 34% by volume and 43% by value from the same period last year. Of the total, softwood imports were 3.877 million m³ valued at US\$433.4 million, accounting for 69.2% and 54.6% of the total, respectively. Hardwood imports were 1.7 million m³ valued at US\$360.5 million, amounting to 30.8% and 45.4% of the total, respectively. During the same

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period, tropical log imports increased by 32.6% to reach 1.4 million m³, making up 24.5% of the total imports.

The top five suppliers of logs to China were: Russia (3.3 million m³, accounting for 59.7% of the total); New Zealand (531,500 m³, 9.5%); Papua New Guinea (380,900 m³, 6.8%); Solomon Islands (333,000 m³, 5.9%); and Gabon (236,600 m³, 4.2%). Russia was still the largest supplier, but its export volume declined 43% and its share of total imports from China dropped by 9.4 percentage points from the same period last year.

(2) Sawnwood

A total of 1.536 million m³ of sawnwood was imported in the first quarter of 2009 and valued at US\$373.4 million, up 0.6% by volume and down 12.8% by value, respectively, from the same period of last year. The major suppliers of sawnwood to China were Russia (529,600 m³, amounted to 34.5% of total); Canada (319,300 m³, 20.8%); the US (142,900 m³, 9.3%); Thailand (137,100 m³, 8.9%); and New Zealand (56,400 m³, 3.7%). The sawnwood imports from these five countries reached 1.1853 million m³, amounting to 77% of total sawnwood imports in China.

(3) Wood-based panels

The imports of wood-based panels continued to decline in the first quarter of 2009. Of the total, plywood imports were 33,400 m³, valued at US\$19.33 million, down 57% by volume and 56% by value from the same period of last year. The import volume and value of fiberboard was 57,000 tons and US\$23.80 million, respectively, down 32% by volume and 32% by value. The import volume and value of particleboard was 49,700 tons and US\$16.15 million respectively, declining 23% by volume and 34% by value. Veneer imports were 10,500 tons valued at US\$13 million, down 44% by volume and 47% by value from the same period last year.

(4) Wood pulp and waste paper

Imports of both pulp and paper continued to increase during this period. However, import values fell considerably. Wood pulp imports reached 3.1 million tons valued at US\$1.5 billion, up 27% by volume and down 15% by value from the same period last year. Waste paper imports were 5.93 million tons valued at US\$658.3 million, up 0.3% by volume and down 49.7% by value.

(5) Paper board and paper products

A total of 674,400 tons of paperboard and paper products was imported, valued at US\$748.7 million, down 24% by volume and 25% by value, respectively, from the same period last year.

(6) Wooden furniture

Import of wooden furniture both by volume and value fell during the first quarter of 2009. A total of 790,900 pieces of wooden furniture was imported and valued at US\$69.2 million, down 7% by volume and 1% by value from the same period last year.

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(7) Wood chips

A total of 217,200 tons of wood chips were imported valued at US\$28.2 million, down 27% in volume and 39% in value from the same period last year.

Exports

(1) Wooden furniture

A total of 52.60 million pieces of wooden furniture (including wood frame seats, bedroom furniture, office furniture, kitchen furniture and other wooden furniture) were exported valued at US\$2.3 billion, down 4.7% by volume and 2% by value from the same period last year. Wooden furniture is an extremely important component of China's forest products exports, accounting for one-third of the total export value of forest products in the country.

(2) Paperboard and paper products

A total of 1.16 million tons of paperboard and paper products were exported and valued at US\$1.44 billion, down 31% in volume and 16.8% in value from the same period of last year. Accounting for 21% of total export value of forest products in China, paperboard and paper products remain the second largest exported forest product.

(3) Other wood products

A total of US\$649.2 million of other wood products (including wooden doors and windows, flooring, wooden handicrafts and wooden packages) were exported in the first quarter of 2009, down 11% from the same period last year.

(4) Plywood

Plywood exports continued to decline dramatically in the first quarter of 2009 to 959,600 m³ (US\$462.2 million), down 41% by volume and 38% by value from the same period of last year.

(5) Fiberboard and particleboard

Exports of both fiberboard and particleboard continued to decline markedly in the first quarter of 2009. Fiberboard exports were 219,900 tons (US\$138 million), down 56% and 46% from the same period last year. During the same period particleboard exports were 17,400 tons (US\$7.8 million), down 41% by volume and 17% by value from the same period last year.

(6) Sawnwood

In the first quarter of 2009 sawnwood exports continued to drop and amounted to 134,500 m³ (US\$85.4 million), down 17% in volume and 4% in value from the same period of last year.

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PROSPECTS OF TIMBER INDUSTRY IN CHINA

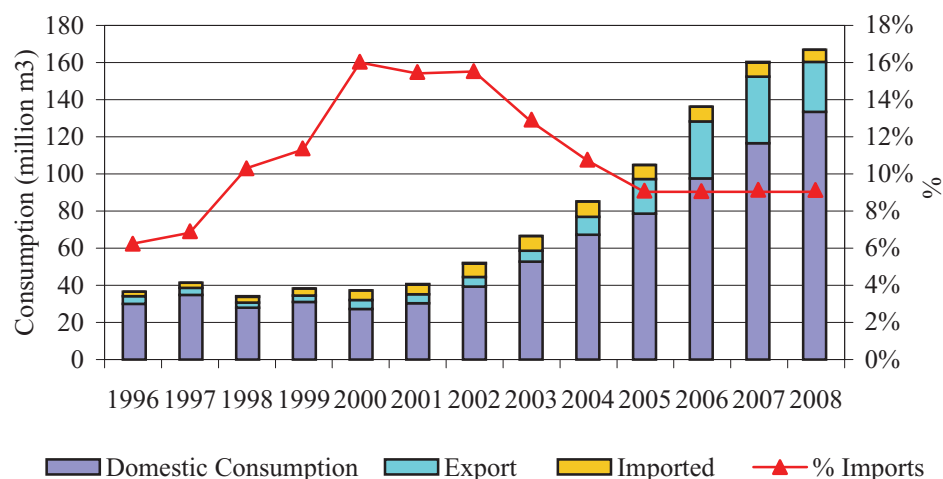
The future prospects of timber industry in China will be determined by, among other things:

- log demand;
- log supply; and
- log prices.

Log demand

Wood consumption in China has increased steadily since 2000. The chart below shows the consumption of wood products during the period 1996 - 2008.

Chinese wood consumption 1996 - 2008



Note:

For the above chart, domestic consumption refers to logs consumed in China, and exports and imports refer to log and primary processed products (for example, lumber) but not total wood exports including finished products.

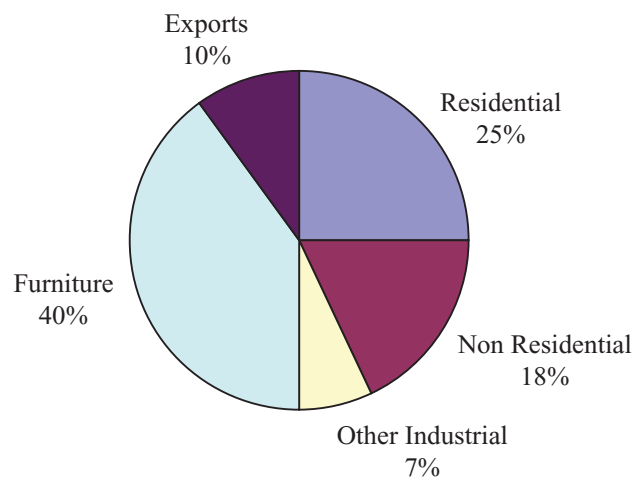
Source: RISI China Wood Products Study 2006
RISI China Timber Supply Outlook 2008

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(1) Solid wood

In 2007, solid wood products were primarily utilised in the furniture industry, followed closely by residential and commercial construction.

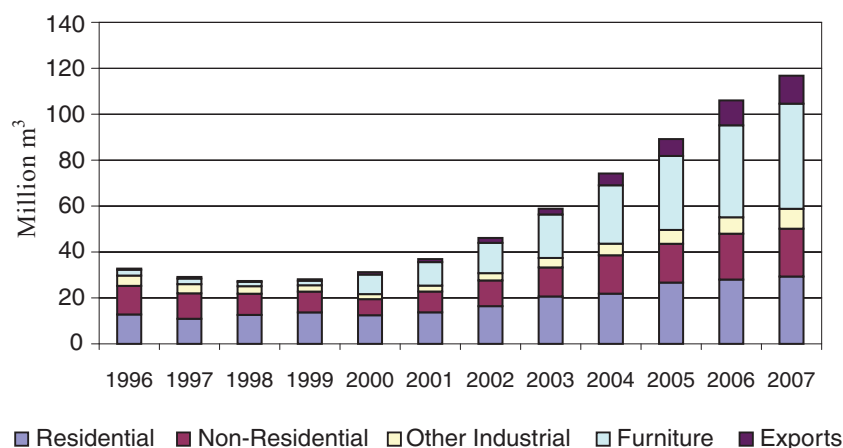
Solid wood consumption by end use segment 2007



Source: Extracted from CFK's Independent Technical Report

The level of wood consumption in China reflects strong growth in furniture production (and exports of finished products), and in residential and commercial construction. As construction and furniture manufacturing increased, so did the consumption of solid wood products.

Consumption of lumber plywood and blockboard 1996-2007



Source: Extracted from CFK's Independent Technical Report

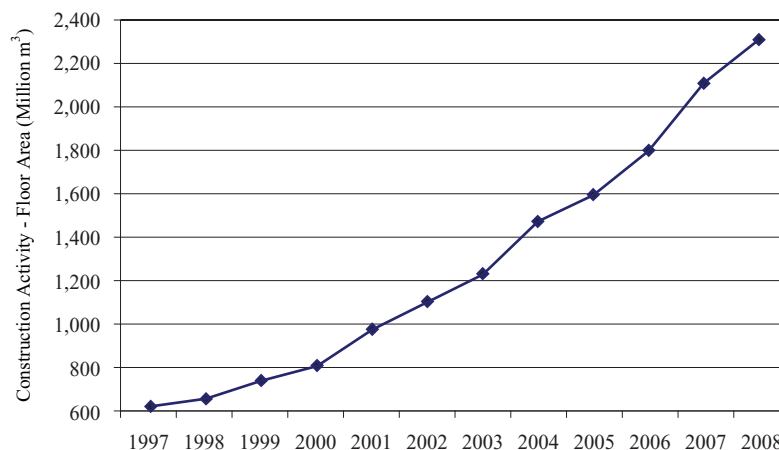
The manufacture of wood products for export played only a minor role in the increasing consumption.

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(2) Construction

The level of construction activity has increased significantly in the past decade with the floor area under construction increasing by about 14% per annum over the period 1997–2008, and has been increasing at the rate of 16% per year since 2001.

Construction activity in China — completed floor area 1997-2008

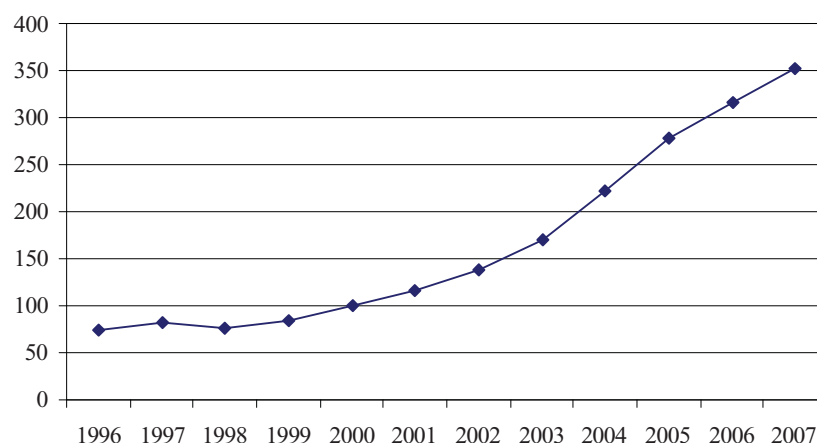


Source: Extracted from CFK's Independent Technical Report

(3) Furniture

The furniture industry has undergone dramatic growth over the last ten years. Whilst the pace of growth has slowed down, the sector still expanded at the rate of over 10% in 2007.

Furniture production index (index 100 in 2000)



Source: Extracted from CFK's Independent Technical Report

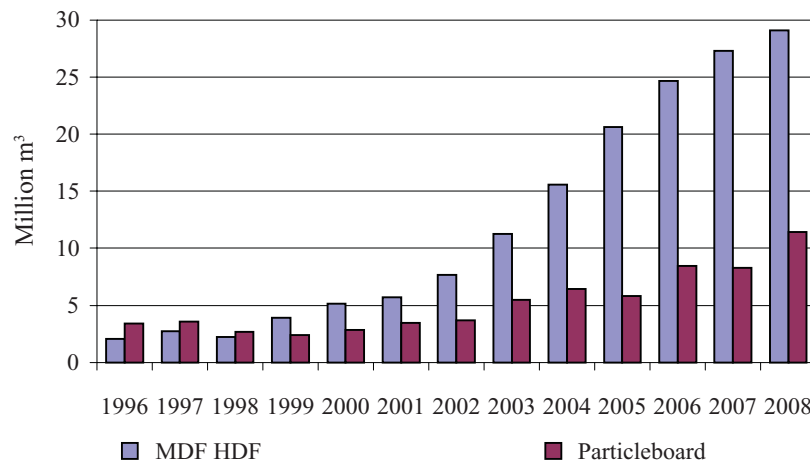
(4) Reconstituted panels

The production of MDF, HDF and particleboard in China, like the production of most forest products, has undergone rapid expansion. The production of MDF and HDF in the

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period between 1996 and 2007 expanded at the rate of 27% per annum, while particleboard expanded at a more modest rate of 9% per annum.

Production of MDF, HDF and particleboard in China 1996-2007

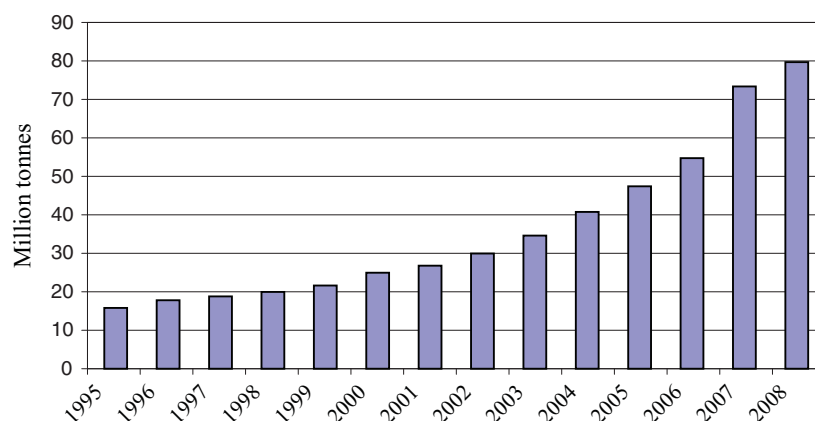


Source: Extracted from CFK's Independent Technical Report

(5) Paper and paperboard

The production of pulp and paper board in China has increased by an average of 13% per annum during the period from 1995 to 2008. China is now the second largest producer of paper in the world behind only the United States. During the decade ending 2004, the increase in paper production in China was greater than that of the next ten top producers combined. It is expected that this increase in production will continue for another decade and will drive demand for raw pulp and imports of kraft pulp.

Production of paper and paperboard 1995-2008



Source: RISI, China Paper Online

Log supply

Under the PRC Forest Law, the PRC strictly implements a quota system for the logging of forest wood. The forestry bureaus at the provincial level are responsible for compiling annual

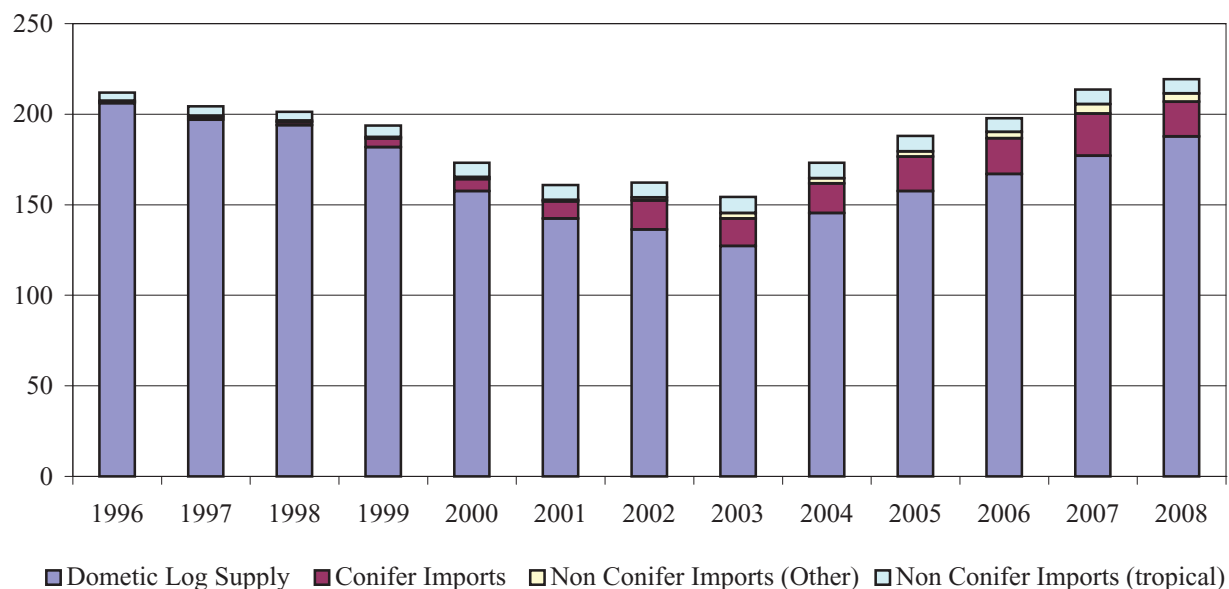
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logging quotas. The annual quota is reviewed by the local government at the same level and is submitted to the PRC State Council for approval.

Domestic log supply in China is ultimately determined by the planted area and standing volume of resources inside China. Any increase in planted area and standing volume are ultimately going to affect the allowable cut calculations.

The diagram below shows the available industrial roundwood in China from 1996 until 2008.

Supply of industrial roundwood in China



Source: Extracted from CFK's Independent Technical Report

According to CFK, it is unlikely that China's domestic log production will be able to increase fast enough to keep pace with the increasing demand. The pattern of the last few years is likely to continue with a gradual increase in domestic supply and a more rapid increase in log imports.

Log prices

According to CFK, the key drivers of log price are the followings:

- Domestic supply is likely to be steady with some small increases. It is considered by industry commentators that domestic log production alone will not be enough to meet demand. As a result, there is an upward pressure on log prices.
- Domestic demand is likely to be supported by strong growth in construction. This will impose an upward pressure on log prices particularly for those regions with a strong domestic focus.
- Production costs are likely to increase, particularly transport costs, in response to increasing fuel costs and demand. This will have a negative impact on forest gate

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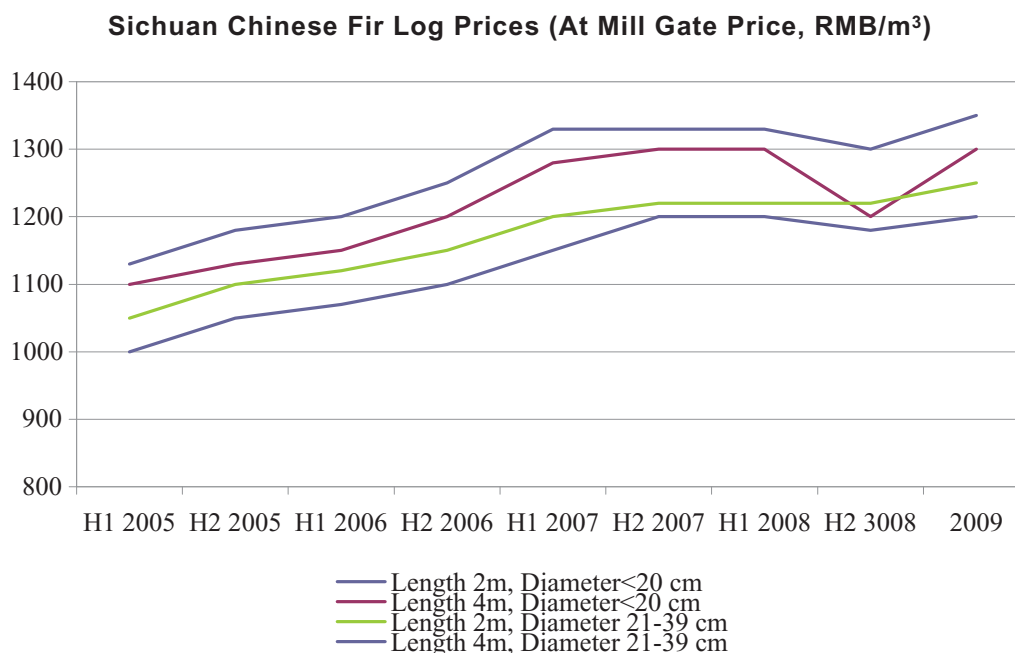
returns as not all of the increases in transport costs can be passed on to the customer.

- Imported log prices are likely to increase as a result of the Russian log export tax on softwood logs as well as increasing production costs from Russia. Other exporters to China will face higher shipping costs. The increased imported log prices particularly from Russia will place a floor under domestic log prices.
- Increasing competition among wood processors will place pressure on their overall returns. The reduced profit margins will reduce ability to pay for logs and place downward pressure on log prices.

CFK believes that, on balance, while the price increases of the last few years may not be maintained, log prices should remain constant in real terms, with some potential for a modest upside.

(1) Domestic log prices

In Sichuan Province, log prices have increased by an average of 9% per annum. The chart below shows the changes in Sichuan Chinese fir log prices by log length and diameter. There is a small price differential for log length and diameter.

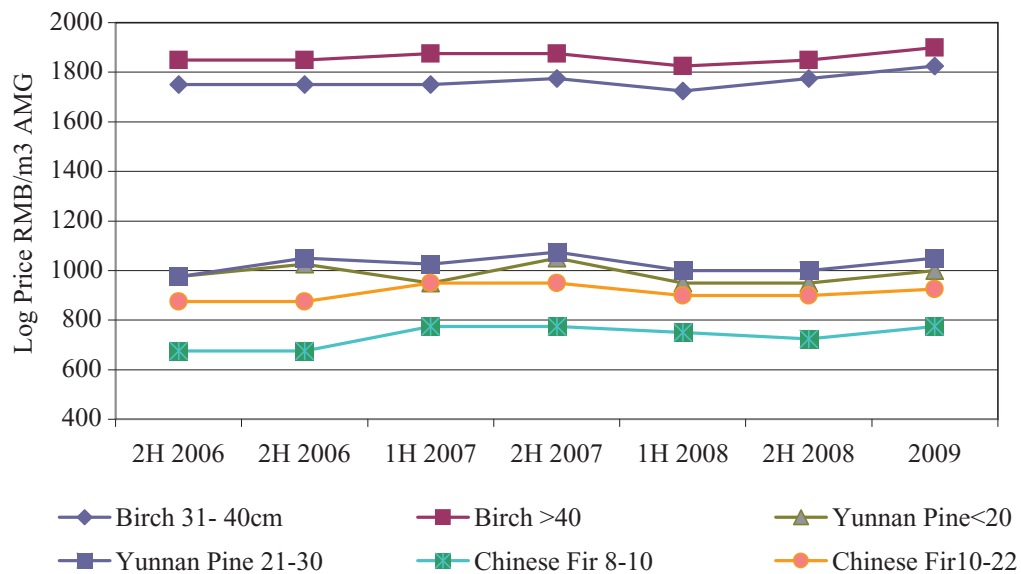


Source: Extracted from CFK's Independent Technical Report

In Yunnan Province, log prices have been more stable than those in Sichuan. The figure below provides a comparison of prices for birch, Yunnan pine and Chinese fir for 4 m logs between 31 cm and 40 cm in diameter. In Yunnan most of the Chinese firs sold are between 8 cm and 20 cm in diameter.

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Yunnan Log Prices (At Forest Gate Price, RMB/m³)



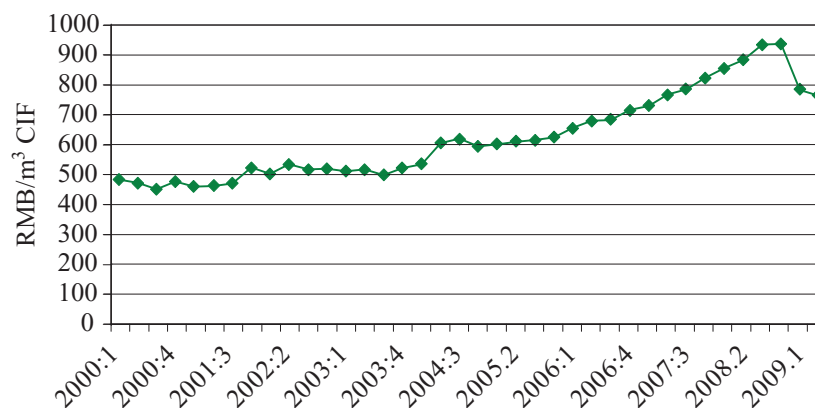
Source: Extracted from CFK's Independent Technical Report

(2) Imported log prices

China is likely to rely on imports of forest products in the foreseeable future. Imports of logs and primary processed forest products are likely to come under increasing cost pressure due to distance and increasing costs of production in the main exporting regions.

The diagram below shows the upward movement in China's softwood (Russian Larch) import log prices for the period between 2000 and the first quarter of 2009.

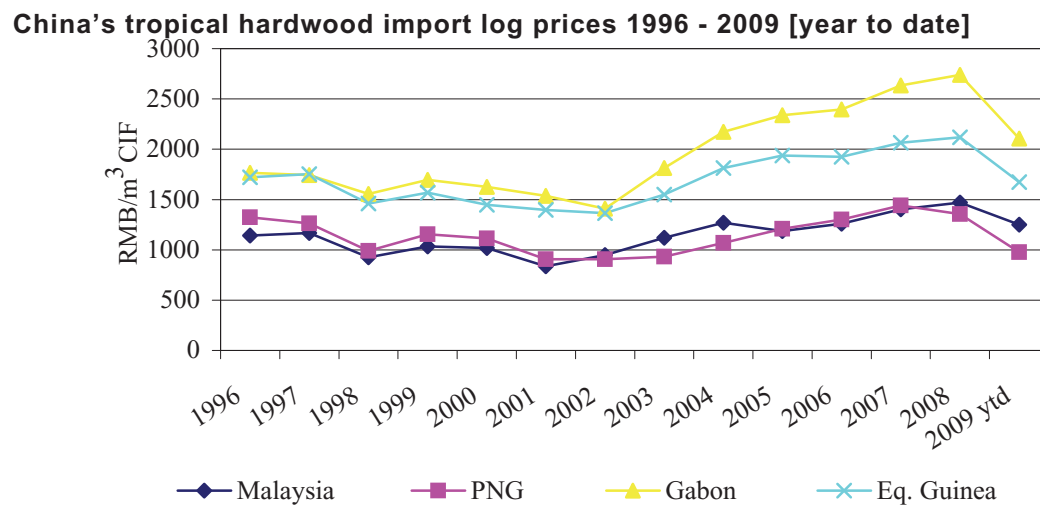
China's softwood (Russian larch) import log prices 2000 - 2009 Q1



Source: Extracted from CFK's Independent Technical Report

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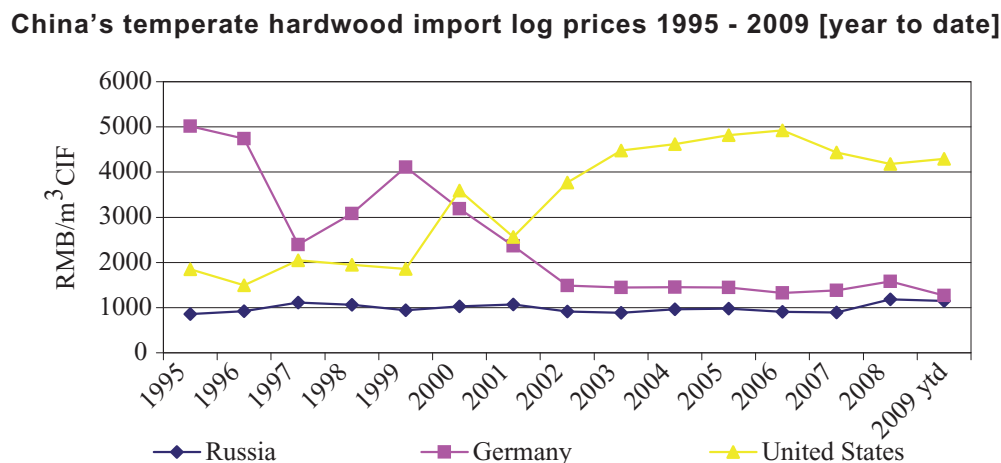
The diagram below shows the upward movement in China's tropical hardwood import log prices for the period 1996-2009 (year to date).



* Forecast Figure

Source: Extracted from CFK's Independent Technical Report

The diagram below shows the movement in China's temperate hardwood import log prices for the period 1995-2009 (year to date).



* Forecast Figure

Source: Extracted from CFK's Independent Technical Report

IMPACT OF THE GLOBAL FINANCIAL SITUATION ON CHINA'S FOREST MARKET OUTLOOK

This review was prepared by CFK in mid-November 2008 before the extent of the impact of the financial situation on the outlook for the forest products industry has been quantified. This is due to the lag that exists before the impact is felt on log prices and demand. Some of the practical effects have already been accommodated into existing demand and price levels.

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For example, the US housing industry has been in a downturn for the whole of 2008 and this has already impacted demand for timber and furniture products. The financial issues that have occurred during the last quarter of 2008 have not deepened the downturn, but more likely delayed the recovery. Log prices are often negotiated on a quarterly (or sometimes annual) basis. There has been a drop in prices of logs imported into China during 2009.

Year-to-date statistics of forest products for China, as with many other countries, lag considerably behind actual events. The year-to-date figures for China are also compounded by the "Olympic Games effect" particularly for the construction sector.

CFK has identified the following key market drivers:

Demand:

- Residential Construction
- Non-Residential Construction
- Furniture Production
- Industrial Production

Supply:

- Domestic
- International

Considering the impact of the financial situation on each of these drivers, it is possible to arrive at some overall conclusions as to the future supply and demand outlook in China.

Demand

Residential Construction

The impact of the financial situation on China's residential construction is likely to be the following:

- While retaining the policy of increasing the average living space from 20 m² to 30 m² by 2050 has not been announced, it is possible that this process will accelerate as part of the Chinese government's package to stimulate the domestic economy.
- Increasing urbanisation in China is likely to continue, but at a slower rate than has been the case, at least in the short term.
- The rate of increase in per capita GDP of China is likely to fall. The latest Consensus Forecast (*Note*) (October 2008) expects China's GDP growth to fall

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below 8% in 2009, down from 11.8% in 2007 and an estimated 9.9% in 2008. Their medium term forecast (10 year plus) remains relatively unchanged. This is still significantly higher than other economies. The decline is likely to have a relatively modest impact on timber consumption inside China.

Note: Consensus Forecast are a United Kingdom-based agency that provides consensus forecasts (mean) of key economic parameters provided by a number of economic forecasters. The consensus forecasts are obtained as the mean of the forecasts provided by a number of economic forecasters. The consensus forecasts for China are a consensus of the views of a number of forecasters, including some global investment banks.

- The recent Sichuan Earthquake is likely to lead to a short-term increase in wood consumption in the affected areas due to the reconstruction work required.

In conclusion, it is expected that the level of residential construction in China is likely to be relatively unaffected, due to the stimulus packages being prepared by the Chinese government, and in the case of the Group's forests, the reconstruction work following the Sichuan Earthquake in May 2008.

Non-Residential Construction

The impact of the financial situation on China's non-residential construction is likely to be the following:

- Non-residential construction in China is closely linked with the increase in China's GDP, which is likely to slow.
- Non-residential construction in China should receive a boost as part of the Chinese government stimulus package.

In conclusion, non-residential construction in China is likely to remain at current levels, although in the short term, the mix may change from office construction to infrastructure projects.

Furniture Production

The impact of the financial situation on China's furniture production is likely to be the following:

- China's furniture production is likely to have a short-term decline due to reduced demand from the United States and Europe. The decline in wooden furniture exports was identified earlier this year and the figures up until September 2008 show a decline of 11.6% over 2007 levels.
- China's exports are unlikely to increase in the latter half of 2009 as originally projected, and this is more likely to be in the latter part of 2010.
- Reduction in China's GDP growth will slow down the domestic demand.

In conclusion, furniture production in China has already contracted. While there is likely to be more contraction, the worst is over. However, the expected 2009 increase in China's exports is unlikely to occur until 2010.

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Industrial Production

The impact of the financial situation on China's industrial production is likely to be the following:

- Industrial production in China is closely aligned with China's GDP growth, which will slow down.
- China's industrial production is likely to receive a boost from the Chinese government's stimulus package.
- China's exports and demand for packaging is likely to reduce in the short term.

In conclusion, industrial production in China is likely to receive a short-term boost from the Chinese government's stimulus package, but will be impacted by the decline in exports, and the overall demand is likely to be slower in the short term. Overall timber demand in the medium term is likely to remain unchanged from previous estimates.

Supply

Domestic Supply

In the short term, China's domestic log supply will be unaffected by the financial situation. The impact is likely to be felt in the medium to long term due to:

- a reduction in the establishment of fast growing plantation due to funding constraints; and
- a slow-down of the consolidation of existing forest assets due to funding constraints.

In summary, the financial situation may well have an impact on the medium-term domestic log supply in China, but is unlikely to have a significant impact in the short term.

International Supply

China's softwood log imports during 2008 have already reduced by about 4 million m³ below their 2007 levels, and are now at similar levels to their 2006 figures. Nearly all this decline has been in imports from Russia. This is a reflection of the higher cost of importing logs from Russia due to, in a large part, the Russian log export tax regime. The impact of the financial situation on the key international supply side drivers is the following:

- Shipping costs have reduced, making imports from Australasia and Africa less expensive.
- The last tranche of the Russian export tax has been delayed, but the financial situation makes it less likely that the infrastructural issues will be addressed.

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- Continued slowdown in the United States will result in log exports from the United States and Canada remaining at current levels (it could decline further if pulp mills close and there is no pulp wood market).

In conclusion, China's log exports have the potential to remain at current levels and with a decline in shipping costs, may be less expensive. The impact could be felt in the medium term where the levels of Russian log exports are expected to decline, unless there is significant infrastructural investment in the Russian Far East, as the harvest moves into previously undeveloped areas.

Conclusion

Supply in China in the short term (2009-2010) is likely to exceed demand and this, coupled with reduced demand and falling prices of imported logs, will place pressure on domestic log prices during this period.

One unknown factor is the role that the Chinese government may play in limiting log imports. On previous occasions (for example, during the Asian financial crisis of 1997) the Chinese government has acted to limit log imports, thereby preserving foreign exchange reserves. If they do this, then log imports are likely to fall, with the balance being met by domestic suppliers, and thus the pressure on log prices is unlikely to be as great as if log imports are able to continue unconstrained.

GOVERNING BODY OF FORESTRY IN CHINA

In China, the SFA is the state bureau in charge of the national forestry industry. Its principal functions include the formulation of policies and regulations for national forestry industry, forest management and forestry resources protection and the supervision of their implementation.

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Recent forestry policies in the PRC

The following is a brief overview of certain recent forestry policies in the PRC:

- According to the Decision of the Central Committee of the Communist Party of China and the State Council on Accelerating the Development of Forestry (中共中央、國務院關於加快林業發展的決定) promulgated on 25 June 2003, the State encourages all social entities including all capable farmers, urban residents, science and technological personnel, private business owners, foreign investors, cadres and other staff of enterprises, non-profit institutions, administrative organs and social groups to participate in the development and construction of forestry, solely or through partnership.
- According to the Guiding Catalogue for Industry Restructuring (產業結構調整指導目錄) promulgated by NDRC which took effect on 2 December 2005, the planting of forest trees falls within the category of industries encouraged by the PRC government.
- According to the 11th Five-Year Guidance Opinion on the Integrated Use of Resources (“十一五”資源綜合利用指導意見) promulgated by NDRC on 24 December 2006, the basic principles for the integrated use of resources are extended usage, high efficiency and clean usage.
- The policies on the transfer of the State-owned forestry resources are relatively strict, which provide that the State-owned forestry resources, before transfer, should be valued by qualified assets valuation institutions. Currently details of the mechanism for the transfer of the State-owned forestry resources have not yet been promulgated, and on 8 February 2007, the SFA announced that before such mechanism is promulgated by the State Council, they will cease to accept further application for forestry right certificate.
- According to the Outline of Policy on Forest Industry (林業產業政策要點) promulgated by seven state bureaus of the PRC including the SFA on 10 August 2007, (1) development of essential technology, equipments and products which could speed the improvement of forest industrial structure are encouraged; (2) forest resource development and international cooperation are encouraged; (3) non-public ownership forest industry is encouraged; (4) preferential tax policies on forestry shall be implemented; and (5) government support policies on forestry insurance shall be established.
- According to the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) promulgated by MOFCOM and NDRC on 31 October 2007 which came into force on 1 December 2007, the PRC government encourages foreign investments in the business of planting forest trees.
- According to the Opinion on Comprehensively Promoting the Reform of the System of Collectively-owned Forestry Rights (中共中央國務院關於全面推進集體林權制度改革的意見, “Opinion”) issued by the Central Committee of the Communist Party of China and the State Council on 8 June 2008, the State will promote the reform of the system of collectively-owned forestry rights. The reform does not change the ownership of the forest land and the collectively-owned forest land will continue to be owned by the collectives, while the ownership of forest trees and the use right of forest land with a period of 70 years should be granted to the villagers with clearly established ownership and rights. The villagers should be allowed to manage these forests and their benefits should be protected. The State will aim to implement this within around 5 years. The Opinion also provides that those who are entitled to the forestry rights

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shall have full rights to dispose of these rights in accordance with PRC laws, by way of subcontracting, lease, transfer, mortgage, using them for contributing to the capital of a company, provided that the use of the forestry land remains unchanged. Furthermore, the State will simplify the legal formalities for management of logging activities and the approval procedures, and will support the establishment of leading forestry enterprises and promote the large-scale forestry production and standardisation of the forestry management.

- For implementing the Opinion, on 26 December 2008, the SFA promulgated the Notice about the Pilot Implementation of Forestry Deforestation Management Reform (國家林業局關於開展森林採伐管理改革試點的通知), according to which, the SFA will gradually reform the forestry deforestation system, simplify the approval procedures, establish a convenient and efficient deforestation approval system, and ultimately change the current standards-based control system to a sustainable operation management system.
- According to the Plan of Revitalising Forestry Industry (2010-2012) jointly promulgated by SFA, NDRC, MOF, MOFCOM and SAT on 29 October 2009, the PRC government will adopt different measures to encourage the development of forestry industry in year 2010 to 2012. In addition to reducing the Forest Maintenance Fee from 20% of relevant sales value to less than 10%, the PRC government will expand both domestic and international markets, accelerate technological innovation, strengthen brand construction, assist in the expansion of leading enterprises, support the small and medium enterprises and promote forestry reform, etc. In particular, the PRC government will highly support 100 national key leading forestry enterprises and 10 biggest distinctive industry clusters within 3 years to gradually form different fundamental industries. The Company is also the only forestry enterprise recommended by the CCPEF to the State Forestry Administration of the PRC as the first batch of the supported companies within such 100 national key leading forestry enterprises to be benefited from such plan.

Forest management

According to the PRC Forestry Law enacted by SCNPC on 20 September 1984 and amended on 29 April 1998, and the Implementation Regulations of PRC Forestry Law effective as of 29 January 2000, the State adopts a registration system of forest, forest wood and forest land. All forest, forest wood or forest land, whether owned by the State, the collectives, or individuals shall be registered by local people's governments at or above the county level and rosters compiled and certificates issued confirming the ownership or right to use. All forest land in the PRC is either owned by the state or rural collective economic organisations. Ownership of forestry land is not transferable in the PRC. However, forest land use rights, forest trees use rights, forest trees ownership rights are transferable as long as the transfer is conducted in accordance with PRC law (including the requirement that a forest land cannot be converted into a non-forest land).

Forests are divided into the following five categories:

- (1) Protection forests: forests, trees and bushes mainly aimed at protection, inclusive of water source storage forests, forests for water and soil conservation, wind protection and sand bind forests, forests for farmland and grassland protection, river bank protective belts and road protection belts;
- (2) Timber stands: forests and trees mainly aimed at timber production, inclusive of bamboo groves mainly aimed at bamboo production;

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- (3) Economic forests: trees mainly aimed at the production of fruits; edible oils, soft drinks and ingredients; industrial raw materials; and medicinal materials;
- (4) Firewood forests: trees mainly aimed at the production of fuels; and
- (5) Forests for special uses: forests and trees mainly aimed at national defence, environmental protection and scientific experiments.

Only the timber stands, economic forests and firewood forests and the forest land use right thereof and the forest land use right of other forests, trees and other woodlands stipulated by the State Council, are transferable under the PRC laws. Moreover, according to the PRC laws, they can be priced and converted into shares or used as capital contribution for equity joint ventures or cooperation conditions for cooperative joint ventures. However, forest lands shall not be converted into non-forest lands.

The competent forestry bureaus under the State Council or different levels of the people's government shall be responsible for the forestry work nationwide or in their jurisdiction. The competent forestry bureaus at various levels shall, according to the stipulations of the forestry law, exercise administration and supervision over the protection, utilisation and renewal of forests and shall be responsible for sorting out forest resources, establish the resources record system and take hold of the situation in terms of resources changes.

Checking forestry resources is an important forestry work for different levels of the forestry bureaus. The SFA has conducted a national forestry resources survey seven times in the past. The 1st survey was conducted during 1973-1977, the 2nd time during 1977-1982, the 3rd during 1984-1989, the 4th during 1989-1993, the 5th during 1994-1998, and the 6th during 1999-2003. The 7th survey commenced in 2004 and has reached to final stage as of September 2009. Based on the national forestry resources survey, the SFA will establish or update the forestry resources archives, establish forestry resources database by using modern scientific methods and create a better local forestry resources monitoring system. All the forestry resources archives and database will help SFA to better monitor and manage China's forestry resources. When conducting a survey of forestry resources, the SFA is responsible for stipulating the overall plans and policies and finalising the nationwide technical rules for the survey. Different levels of forestry bureaus will establish specific working group or office under the head of the bureau, and organise and recruit specialists or appoint experts for the survey.

Deforestation

Logging in forests is strictly regulated in the PRC under its forestry laws and regulations. Different levels of forestry bureaus (namely, at the national level, the provincial level, the municipal level, the county level and the township level which, together constitute a vertical management system) are responsible for checking and organising the forestry resources, formulating the forestry operation plans, and compiling the annual logging quotas in their area based on these forestry resources and forestry operation plans.

The annual logging quotas are subject to review by the State Council and strictly implemented by different levels of forestry bureaus. In order to ensure the logging quotas will be strictly implemented: (1) before logging, forestry operators are required to obtain the pre-approval and logging permits from the relevant forest bureaus; (2) during logging, the local forest bureaus shall selectively conduct on-site investigation and supervise the logging activities of the forest operators; (3) after logging, the transportation of the timbers out of the forestry zone requires a separate transportation permit from the forestry bureaus; and (4) in respect of transportation, timber inspection posts will be set up along the roads heading out from the forestry zones to inspect the timber transport and stop the transport of timber without permit.

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• Logging quotas

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

Each year, the forestry bureaus at the lower level (which is mainly the county level), based on their regular check on the conditions (including the maturity of trees and the forestry resources) and the forestry operation plans of all forestry lands within their respective area, prepare the proposed annual logging quotas. The annual quota is reviewed by the local governments at the same level and submitted to the forest bureau at the provincial level. The forestry bureaus at the provincial level are then responsible for compiling annual logging quotas by adjusting the proposed logging quotas submitted by the lower level forestry bureaus and submitting them to the PRC State Council for final approval.

According to the Implementation Regulations, the annual quota for certain key forest zones will be compiled by the SFA and approved by the PRC State Council and the quota will be set every five years. The Implementation Regulations of PRC Forest Law further stipulates that the logging of a foreign-invested timber forest up to a certain scale shall be subject to the approval of the forestry bureaus at the provincial level within the annual forest logging quota approved by the PRC State Council and shall be listed separately in respect of the logging quota ("Regulation on Foreign-invested Timber Forest").

On 19 December 2005, the State Council issued the Notice to Approve the Opinions by the SFA on Review of Annual Logging Quotas for the Eleventh Five-Year (關於各地區“十一五”期間年森林采伐限額審核意見的通知) (Guo Fa [2005] No.41), which sets forth the review opinions on the annual logging quotas for the Eleventh Five-Year. Under the Notice on Logging Quotas, the annual logging quota for the Eleventh Five-Year is of 248.155 million m³ excluding logging quota for bamboos, details of which are as follows:

(Unit: 10,000 m³)

Region	By logging types						By consumption structures			By forestry origins		
	Principle logging (主伐)	Tending logging (撫育採伐)	Regeneration logging (更新採伐)	Low-yield forest logging	Others	Total	Commodity forest	Non-commodity forest	Total	Plantation forest	Naturally regenerated forest	Total
National	11743.7	5624.1	2042.1	2731.8	2673.8	24815.5	15769.7	9045.8	24815.5	15694.1	9121.4	24815.5
Sichuan Province . .	382.9	491.7	102.4	0.0	347.0	1324.0	414.7	909.3	1324.0	945.0	378.0	1324.0
Yunnan Province . .	1014.2	984.2	252.5	278.0	509.3	3148.2	1055.0	2053.2	3148.2	1009.6	2139.5	3148.2

In accordance with the said notice, the annual logging quotas for each specific type should be implemented strictly and cannot be used by other types, except that tending logging may utilise the logging quota for principle logging and plantation forest logging may utilise the logging quota for naturally regenerated forests.

The State forbids the logging of the trees in sites of historical interests and revolutionary commemoration and the forest in the natural protection area, and only permits logging the protection forests and other forests with special uses for cultivation and reforestation purposes, while for mature timber stands, logging can be conducted by way of selective logging (擇伐), clear

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logging (皆伐) and shelterwood logging (漸伐). Clear logging shall be performed under strict controls and the reforestation shall be completed in the same or next year of the logging.

- **Logging permits**

The PRC Forestry Law provides that logging of trees requires logging permits.

When a state-owned forestry enterprise or institution applies for a logging permit, it shall come up with a logging area survey, design document and logging and renewal verification proof of the previous year. For non-state-owned forestry operators, they shall apply for a logging permit with a document that contains contents such as logging objective, location, tree species, tree situation, area, stock, approach and reforestation measures.

Upon receipt of an application of logging permit from a forest operator, the respective forestry bureau at county level will examine the application and assess whether the accumulated area/volume of timber to be harvested will exceed the logging quota for the year initially (and internally) allocated to the specific piece of forestry land based on its own annual assessment reports on the relevant forestry land, or the aggregate logging quota for the year allocated to the whole county, which has been submitted to the forestry bureau at municipal level for approval.

Logging permits will not be issued to the applicant under the following circumstances:

- if the applicant has not replanted forest wood logged in the previous year;
- if there were any large scale forest fires, significant unlawful logging or large scale destruction caused by pests in the previous year and the applicant has not adopted appropriate preventive measures or improved measures to prevent such occurrences; or
- if the application is for logging in a conservation forest zone or in a special use forest zone.

The logging permits usually contain details of logging, including the location of logging, the species of trees, its origin, ownership, logging method, intensity of logging, area for logging, the amount of timber, the term of validity of the permit, etc. Forestry operators must carry out the harvesting activities pursuant to such details specified on the logging permits. After logging, the forestry bureaus which issued the logging permits should also examine and inspect whether the logging activities comply with the logging permits.

If it is found that the relevant forestry operator has not conducted logging activities or the re-plantation in accordance with the requirements of the logging permits, the forestry bureau will not approve further applications for logging permits.

- **Violations**

Illegal logging, or logging in excess of timber production plans or logging permits, is punishable by fines and the confiscation of illegally logged timber and the proceeds from sales thereof. Illegal loggers may be asked to replant trees. If any logging unit or individual logger fails to fulfil reforestation tasks pursuant to the prescribed provisions, the department issuing

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the logging permit has the power to stop issuing such permits. In the case of serious violations, the relevant forestry bureaus may impose fines and administrative sanctions.

Save for the Regulation on Foreign-invested Timber Forest which is not applicable to us because of our existing operation scale, our current forestry operations are subject to the above PRC laws and regulations in relation to forest management and deforestation.

Transportation, processing and export of timber

- **Transportation of timber**

Other than the logging quotas and logging permits, timber transportation permit is another measure of the PRC government to further monitor the logging activities in the PRC.

According to the PRC Forestry Law and its implementation regulations, transportation of timber (unless the timber is uniformly allocated and transferred by the state) out of forestry zones all along from the dispatch point of timber to the destination point is required to accompany with a timber transportation permit to be issued by the forestry bureau at the county level or above. No entity or individual carrier may transport any timber without a timber transportation permit. To apply for a timber transportation permit, the applicant shall submit the relevant forest logging permit, the quarantine certificate and other documents as may be required by the forestry bureau at the provincial level. The competent forestry bureau shall, within 3 days after it has received an application, issue to the applicant a timber transportation permit which specifies the total volume of timber permitted to be transported.

The local forestry bureau sets up timber inspection stations in forest zones for the inspection of timber transportation. For any timber transportation without any permit, the timber inspection station shall stop it, and may temporarily detain the timber not covered by a transportation permit and immediately report it to the competent forestry bureau at the county or higher level. When anyone transports any timber without any permit or using a forged or altered timber transportation permit or in excess of the approved timber amount stated in the timber transportation permit, the law provides that (i) the timber may be confiscated; (ii) a fine of up to 50% of the price of the timber may be imposed on the owner; (iii) the transportation fee paid to the carrier may be confiscated; and (iv) a fine up to one to three times of the transportation fee may be imposed on the carrier.

- **Processing of timber in forest zones**

Timber processing in forest areas must be approved by the forestry bureau at the county or higher level. The current PRC Forestry Law and its implementation regulations do not stipulate detailed requirements for timber processing in forest zones. Generally, anyone who is engaged in timber processing can apply for approval by submitting the application form and documents evidencing that it has a stable place for the timber processing, and relevant equipments, capital and working staff and the origin of the timbers are lawful. However, there is a limit, depending on the volume of the local forestry resources, for the total number of approved timber processors within a forest. Any unapproved timber processing in a forest zone will be subject to penalties including the confiscation of illegal proceeds generated therefrom and a fine of not more than 2 times of the proceeds.

- **Export of wild plants**

According the PRC Forest Law, the export of precious trees and their products and derivatives is forbidden or restricted. In accordance with the Regulation of Protection of Wild

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Plants (野生植物保護條例), the export of wild plants which are especially protected by the PRC or restricted by international pacts of which the PRC is a signatory, shall be examined by forestry bureaus at province level and approved by the SFA, and an export permit or label from the State Endangered Species Import and Export Administration Office is required.

Because our current forestry business model does not involve transportation, processing or export of timber, we are not subject to the above PRC laws and regulations in relation to transportation, processing and export of timber.

Environmental and forest protection

In order to protect the forest, the PRC government at various levels shall formulate long-term forestry plans. The local PRC government at various levels shall organise competent authorities to establish forest protection organisations to take charge of the work of forest protection, delimit forest protection responsibility zones, and provide full-time or part-time forest protection personnel. Forest protection personnel may be appointed by the people's government at the county or township level. The main duties and responsibilities of a forest protection person are to patrol and protect forests and stop activities that damage forest resources. In case of damages to forest resources, the forest protection person shall have the right to request the local competent authorities to resolve the issue. The State shall formulate a unified annual timber production plan. The annual timber production plan shall not exceed the approved annual logging quota.

- **Environmental surveillance**

According to the measures for the Administration of Environmental Surveillance (環境監測管理辦法), the environmental protection departments and their environmental monitoring institutions shall establish a quality review and inspection system for monitoring environmental work, environmental quality pollution sources and outbreak of environmental pollution incidents, undertake the construction and operation of environmental monitoring networks, collect and manage environmental monitoring data, conduct environmental condition surveys and assessments, and prepare environmental monitoring reports.

- **Forest pest and disease control**

According to Article 17 of Forest Pest and Disease Control Ordinance (森林病蟲害防治條例), application of pesticides shall comply with the relevant regulations and prevent pollution, ensure human and livestock safe and minimise the death of beneficial insects. We have established procedures of pest control, details of which are set out in the section headed "Business — Our Sustainable Forestry Management — Forestry Management" of this document. One of these rules requires avoidance of use of chemical pesticides in pests control. Our Directors have confirmed that we have been in compliance with Article 17 of Forest Pest and Disease Control Ordinance.

- **Environmental impact assessment**

According to the PRC Environmental law (中華人民共和國環境保護法), the PRC Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the relevant regulations, if an entity performs clear logging, an environmental impact report shall be prepared to provide a comprehensive assessment of the resulting environmental impact; if an entity performs shelterwood logging or plants in the environmental sensitive area, an environmental impact

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report form shall be prepared to provide an analysis or special assessment of the resulting environmental impact; if an entity plants in the environmental non-sensitive area, an environmental impact registration form shall be filled in and submitted to the relevant environmental bureau. The environmental impact report or report form is only required to be submitted to the relevant government authority once and for all.

Environmentally sensitive areas include the followings:

1. the areas stipulated under the national and local laws that need special protection, such as water source protection areas, scenic spots, nature reserves, forest parks, key national heritage, historical and cultural preservation areas, soil erosion protection areas and basic farmland protection areas;
2. the ecologically sensitive and vulnerable areas, such as key soil erosion areas that need special governance and supervision, natural wetlands and habitats of rare or special ecological environment and naturally regenerated forests, tropical rain forests, mangroves, coral reefs, spawning grounds, fisheries and other important ecosystems; and
3. the areas of social concern, such as cultural and educational areas, resorts, hospitals and other protection areas with regional and historical, scientific, national or cultural significance.

An environmental impact report generally shall cover the followings:

1. a brief introduction to the construct project;
2. the existing environment of the construction project;
3. an analysis, prediction and assessment of the environmental effects from the construction project;
4. the protective measures for the environment of the construction project, and the technical and economic demonstrations of such measures;
5. an analysis of the environmental effects from the economic losses and benefits of the construction project;
6. a proposal for monitoring the environment of the construction project; and
7. a conclusion on the evaluation of environmental effects.

According to the contents and format promulgated by SFA, the environmental impact report form shall contain the following contents:

1. the project name, location, types of industry and total investment amount;
2. the main targets of the environmental protection which may be the resident area, the school, hospital, cultural relic, landscape area, water resources or other sensitive points;

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3. the analysis of the impact and suggestions or measures to protect the environment; and
4. the conclusion on the evaluation of environmental effects.

Compared to an environmental impact report form which is a simplified form of the environmental impact report, an environmental impact report is for a construction project which may have more significant environmental impact and therefore is required to contain a more comprehensive assessment of the environmental impact. Both the environmental impact report and the environmental impact report form shall be prepared by a qualified assessment institution. The environmental impact report shall be submitted by an enterprise which is engaged in construction activity, (1) if a feasibility study of the relevant construction project is required by PRC laws and regulation, at the time it conducts such feasibility study; and (2) if such feasibility study is not required by PRC laws and regulations, before it commences the construction or obtains the business license (if required).

We currently do not perform clear logging and therefore do not need to prepare an environmental impact report. However, as we perform shelterwood logging and plant in the environmental non-sensitive area, we are required to submit, and as at the Latest Practicable Date, have not yet submitted, an environmental impact report form and an environmental impact registration form to the relevant environmental bureau, as we are still looking for an assessment company which has the capacity or experience in performing an environmental impact assessment for forestry industry.

We have not conducted any formal environmental impact assessment for our Sichuan forests as the Sichuan local environmental authority does not consider it necessary. However, we are in the process of arranging a formal environmental impact assessment for our Yunnan forests as the Yunnan local environmental authority has informed us that they would accept one for review if we did such an assessment.

● Reforestation of the forest

In order to protect the forest, the PRC Forestry Law and the Implementation Regulations of PRC Forestry Law provide that entities and individuals that have harvested the forest shall, according to the area, number of trees, tree species and period of time specified in the logging permits, complete the reforestation task, and the area and number of trees in the reforestation shall not be less than those logged. After reforestation, the forestry bureaus which issue logging permits, shall examine the area and quality of reforestation and issue an Acceptance Certificate of Reforestation.

Should forest logging entities or individuals fail to finish the reforestation task in compliance with the relevant provisions, the authorities which have issued the logging permit may stop issuing any logging permits to them until they have completed their reforestation tasks. Under any of the following circumstances, the local forestry bureau may order the forest logging entities or individuals to complete the reforestation task within a prescribed period, and if they fail to do so, a fine of not more than 2 times the expenses required for completing the uncompleted reforestation task, may be imposed: (1) the forest logging entities or individuals fail to complete the reforestation task in two consecutive years; (2) the reforestation area completed within the current year is less than 50% of the area of reforestation required; (3) except for the arid or semi-arid areas as specially provided for by

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the state, the reforestation survival rate of the year is less than 85%; or (4) the forest logging entities or individuals fail to complete the reforestation task as scheduled in accordance with the requirements of the people's government at the level of the county where the forest is located.

Taxation

According to the new PRC EIT Law (中華人民共和國企業所得稅法) and the Implementation Regulations of PRC EIT Law (中華人民共和國企業所得稅法實施條例) promulgated on 16 March 2007 and 6 December 2007 respectively, which both took effect on 1 January 2008, the enterprise income tax for both domestic and foreign-invested enterprises are now set at 25%. With regard to the income generated from the cultivation of forest trees and the gathering of forest products, the enterprise income tax shall be exempted.

In addition, under the new PRC EIT Law, an enterprise incorporated outside of the PRC may be deemed to be a "non-resident enterprise" or "resident enterprise" according to their definitions thereunder. If that enterprise is deemed to be a "non-resident enterprise" without an office or premises in the PRC, a withholding tax at the rate of 10% may be applicable to any dividends it receives, unless it is entitled to reduction or exemption of such tax, for example, pursuant to relevant tax treaties (such as the tax treaties between the PRC and Hong Kong, under which, dividends paid by a foreign-invested enterprise in China to its shareholder(s) in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds a 25% or more interest in the PRC enterprise). On the other hand, if that enterprise has "de facto management bodies" located within the PRC territory, it is considered as a "resident enterprise" under the PRC EIT Law, then: (i) its global income will normally be subject to the enterprise income tax at the rate of 25% for China-sourced and overseas-sourced income; and (ii) any dividends it pays to its overseas enterprise shareholders and any gains realised by such overseas enterprise shareholders from the transfer of the shares of that enterprise may be regarded as China-sourced income, and as a result, become subject to a withholding tax at the rate up to 10%.

Pursuant to the PRC Value-Added Tax Provisional Regulations (中華人民共和國增值稅暫行條例) which was promulgated on 13 December 1993 and effected on 1 January 1994, and its implementation rules which was promulgated and came into effect on 25 December 1993, the entities and individuals engaged in the sale of goods, provision of processing, repair and replacement services, and the importation of goods within the PRC shall be subject to a VAT at the standard rate of 17% unless otherwise provided. The agricultural products which include the forest products are entitled to a preferential VAT of 13%, and primary agricultural products which include the forest products produced and sold by the agricultural producers engaged in the agricultural productions shall be exempt from the VAT.

Labour

According to the PRC Labour Contract Law promulgated by the SCNPC on 29 June 2007 and effective as of 1 January 2008, labour relationships between the employer and the labourers must be set forth in labour contracts. According to the Labour Law of the PRC ((中華人民共和國勞動法), hereinafter referred to as "Labour Law") promulgated by the SCNPC on 5 July 1994 and effective as of 1 January 1995, labour relationships between the employer and the labourers must be set forth in labour contracts. The employer cannot require the

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labourers to work in excess of certain hour limits and shall provide wages which are no lower than local standards on minimum wages to the labourers. The employer shall establish and perfect its system for labour safety and sanitation, and educate labourers in labour safety and sanitation. Labour safety and sanitation facilities shall meet State-determined standards. The employer shall provide labourers with labour safety and sanitation conditions meeting State stipulations and with necessary articles of protection, and carry out regular health examination for labourers engaged in work with occupational hazards. The State provides special protection to female workers and juvenile workers.

Pursuant to the Regulation on Occupational Injury Insurance (《工傷保險條例》) effective as of 1 January 2004, entities in the PRC shall pay the occupational injury insurance fees for their employees, and their employees do not pay the occupational injury insurance fees.

Pursuant to the Interim Measures concerning the Maternity Insurance (《企業職工生育保險試行辦法》) effective as of 1 January 1995, entities in the PRC shall pay the maternity insurance fees at the rate of not more than 1% of the gross wages for their employees and their employees are not required to pay the maternity insurance fees.

Pursuant to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》) effective as of 22 January 1999 and the Interim Measures concerning the Management of the Registration of Social Insurance (《社會保險登記管理暫行辦法》) effective as of 19 March 1999, entities in the PRC shall register for social insurance with the competent authorities and make contributions to the basic pension insurance, basic medical insurance and unemployment insurance for their employees.

Pursuant to the Regulation on the Administration of Housing Fund (《住房公積金管理條例》) effective as of 3 April 1999 and amended on 24 March 2002, entities in the PRC shall conduct the registration of housing fund with the competent authorities, open the relevant account with the designated banks and pay the housing fund at the rate of not less than 5% of the monthly wage an employee earned in the preceding year for their employees.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

HISTORY

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

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

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

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

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

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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

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

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

REORGANISATION OF OUR GROUP

Our Group underwent the Reorganisation which involved the following major steps:

Incorporation of offshore investment vehicles and our Company

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

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

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

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

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

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

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

Restructuring of our PRC operating subsidiaries

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

On 7 March 2008, Kunming Ultra Big was established by Ultra Big as a wholly-foreign owned enterprise in Yunnan, PRC under the laws of the PRC. The registered capital of Kunming Ultra Big is US\$50,000,000 and as at 27 March 2008, US\$22,000,000 has been contributed by its sole shareholder, Ultra Big, in compliance with the PRC laws and the then articles of association of Kunming Ultra. According to the then effective articles of association of Kunming Ultra Big, the balance of US\$28,000,000 should have been contributed within 1 year from the date of issuance of the business licence. Kunming Ultra Big did not contribute the remainder of the registered capital within the time limit specified in the then effective articles of association as the Group did not have sufficient foreign currency at that time. Kunming Ultra Big proposed changes to its articles of association to extend the period for contribution of the remaining registered capital to within 2 years from the date of the issuance of the business licence. On 17 August 2009, the relevant authority granted an approval for such amendment. According to the revised articles of association of Kunming Ultra Big, the balance of the registered capital in the amount of US\$28,000,000 needs only be contributed within 2 years from the date of the issuance of the business licence. Our PRC legal advisers have advised that there should not be any penalties or adverse legal consequences provided that the outstanding registered capital of Kunming Ultra Big is paid up on or before 6 March 2010. As at the Latest Practicable Date, remaining balance of registered capital of Kunming Ultra Big of US\$28,000,000 has been fully contributed by its sole shareholder, Ultra Big, with proceeds from the Second Share Purchase Agreement. As at the Latest Practicable Date, unpaid consideration of Yunnan Wenshan forest amounted to approximately RMB[103.41] million which will be settled with the Group's internal resources.

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

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

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

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

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

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

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

Dissolution of Beijing Zhaolin

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

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

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

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

(1) FIRST ROUND INVESTMENT BY CARLYLE GROUP

Background of Carlyle Group

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

First Share Purchase Agreement

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

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

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

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

Pursuant to the First Share Purchase Agreement, Mr. Xiao Feng was appointed by our Board, upon the recommendation and nomination of the Carlyle Funds as and remains a non-executive Director.

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

Background of Partners Group

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

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Second Share Purchase Agreement

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

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

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

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

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

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

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

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Second Shareholders' Agreement

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

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

Anti-dilution Protection

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

Share Adjustment

If the aggregate value of the Shares purchased by the Carlyle Funds pursuant to the First Share Purchase Agreement or by the Carlyle Funds and the Partners Group Funds under the Second Share Purchase Agreement respectively is lower than 125% of the aggregate consideration paid by the Carlyle Funds under the First Share Purchase Agreement or by the Carlyle Funds and the Partners Group Funds under the Second Share Purchase Agreement respectively, Mr. Li Kwok Cheong shall transfer to the Carlyle Funds or the Carlyle Funds and the Partners Group Funds (as the case may be), for an aggregate consideration of US\$1.00, such number of Shares beneficially owned by Mr. Li Kwok Cheong, so that upon such transfer, the Carlyle Funds, together with the Shares purchased by them pursuant to the First Share Purchase Agreement or the Carlyle Funds and the Partners Group Funds, together with the Shares purchased by them pursuant to the Second Share Purchase Agreement (as the case may be) have an aggregate value of Shares equal to 125% of the aggregate consideration paid by the Carlyle Funds pursuant to the First Share Purchase Agreement or by the Carlyle Funds and the Partners Group Funds pursuant to the Second Share Purchase Agreement (as the case may be).

As at the Latest Practicable Date, neither the Carlyle Funds nor the Partners Group Funds has exercised any special rights under any of the First Share Purchase Agreement, the First Shareholders' Agreement, the Accession and Amendment Agreement, the Second Amendment Agreement, the Second Share Purchase Agreement or the Second Shareholders' Agreement.

Pursuant to the Second Shareholders' Agreement, the Carlyle Funds and the Partners Group Funds have agreed that they will use their best efforts to assist the Company with

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

Apart from being an institutional investor of the Company and save as disclosed, the Carlyle Funds and the Partners Group Funds had no role in our Group nor influence or control over the management and operation of our Group during the three years ended 31 December 2008 and six months ended 30 June 2009. In addition, the director nominated by the Carlyle Funds to the board of directors of our Company is only a non-executive director, the Carlyle Funds will not have any influence or control over the management and operation of our Group going forward.

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

The proceeds of the investment by the Carlyle Funds pursuant to the First Share Purchase Agreement has been applied as to approximately US\$17,400,000 for acquisition of Sichuan forestry rights from Beijing Zhaolin as part of the Reorganisation, as to approximately US\$4,600,000 for acquisition of Yunnan Luxi/Shuangjiang Forest in Yunnan by Kunming Ultra Big and as to approximately US\$10,000,000 as working capital of Chengdu Yishang.

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

The proceeds of the investment by the Carlyle Funds and the Partners Group Funds pursuant to the Second Share Purchase Agreement have been applied as to US\$28,000,000 for contributing to the remaining balance of the registered capital of Kunming Ultra Big to settle part of the total consideration for acquisition of Yunnan Wenshan Forest in Yunnan by Kunming Ultra Big, and as to approximately US\$10,500,000 for contributing to part of the remaining balance of the registered capital of Chengdu Yishang. The balance of the total consideration for the acquisition of the Yunnan Wenshan Forest and the balance of the remaining part of the registered capital of Chengdu Yishang will be funded by the Group's internal financial resources.

OTHER TRANSFER

On 31 March 2008, Kingfly Capital sold 3,200,000 Shares which represented 10% of the then issued share capital of our Company to Mr. Li Han Chun for a consideration of

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US\$32,000,000 and 320,000 Shares which represented 1% of the then issued share capital of our Company to Mr. Huang Fan for a consideration of US\$3,200,000. The consideration paid by each of Mr. Li Han Chun and Mr. Huang Fan took into account the consideration paid by the Carlyle Funds under the First Share Purchase Agreement when the Carlyle Funds invested in us, details of which are set out under "History, Reorganisation and Corporate Structure".

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

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

Mr. Huang Fan joined Beijing Zhaolin in 2005 as vice chairman. He was also appointed as a Director of the Company in December 2007. As Mr. Huang Fan decided to pursue his personal business, he resigned from Beijing Zhaolin and the Company in March 2008. The Company confirmed that there is no matter pertaining to the resignation of Mr. Huang Fan that needs to be drawn to the attention of the Hong Kong Stock Exchange. Prior to joining Beijing Zhaolin, Mr. Huang had no experience in the forestry industry. Mr. Huang Fan assisted Mr. Li Kwok Cheong in respect of the Group's public relationship and regulatory-related matters during his service for our Group, and he did not maintain an office at the premises of the Group or needed to work on regular hours. The Group and Mr. Huang agreed commercially that no remuneration would be paid during his service. We understand from Mr. Huang Fan that he decided to invest in the Company as he believed China's forestry industry had a good prospect. Mr. Huang Fan also advised that he had, in around May 2008, fully settled the consideration of US\$3,200,000 in Renminbi by his own savings and a loan from his friend. Apart from being a passive investor, Mr. Huang has ceased to hold any position in the Group.

Registration under SAFE Circular 75

Our PRC legal advisers, Commerce & Finance Law Offices, have advised that both Mr. Li Han Chun and Mr. Huang Fan, being the relevant beneficial shareholders of our Group, who are PRC nationals, have completed their foreign exchange registration of overseas

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investments at the Yunnan Branch of SAFE, and that the Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration on Domestic Residents to Engage in Financing and Return Investment via Overseas Special Purpose Companies (known as “SAFE Circular 75”) has been complied with. Our PRC legal advisers further advised that the SAFE Circular 75 requires only the shareholders of the Company who are PRC resident, but not the Company, to make the foreign exchange registration.

BUSINESS

OVERVIEW

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

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

Our Unrealised Gains from Fair Value Change

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

The unrealized gains arising from changes in fair value of plantation assets less costs to sell for the year ended 31 December 2008 increased substantially. Such gains comprise of (a) an unrealized gain of approximately RMB6,635 million arising upon initial acquisition of plantation assets in Yunnan Luxi and Yunnan Wenshan, and (b) an unrealized loss of approximately RMB611 million during the year, primarily due to a revision in yield estimate and drop in log prices in the second half of 2008. Further details of such revision are set out in "Financial Information — Critical Accounting Policies — A. Fair value of plantation assets less costs to sell". Pursuant to IAS 41, the fair value of our plantation assets less costs to sell at each balance sheet date was reassessed and the upward change in such amount was recorded as an unrealised gain. Such unrealised gains do not generate actual cash inflow or outflow unless such plantation assets are disposed of at such revalued amounts. The increase in market prices of logs and the volume growth of forests during the Track Record Period also

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contributed to such unrealised gains. Going forward, although the market price of logs is expected to rise for the years to come as China's demand for timber continues to grow, we expect that our gains, and thus our profit in the future, may not be as much as during the Track Record Period if we do not acquire new forests at relatively low acquisition costs.

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

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

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

We have also engaged CFK to prepare an independent technical report which is set out in Appendix V to this document. In view of CFK's comments on our internal record keeping system, we have engaged Shanghai SVA Communication Co., Ltd. to implement an information management system for us, including a forestry resources management system which uses satellite for collection and transmission of data gathered from forests. It is

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expected that upon completion of the system implementation by end of 2010, our forest resource recording system will be significantly enhanced.

Our forests

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

Our total forest area increased at a CAGR of approximately 510.9% between 2006 and 2008. Our total forest area as at 31 December 2006, 2007 and 2008 was approximately 4,603 hectares, 12,453 hectares and 171,780 hectares respectively, and our total forest stock volume as at the corresponding dates was approximately 1.3 million m³, 3.5 million m³ and 35.5 million m³ respectively.

In March 2008, we acquired the Yunnan Luxi/Shuangjiang Forest in Yunnan. It was the first time we acquired forests in Yunnan. This forest includes both naturally regenerated and plantation forests and had an area of approximately 59,333 hectares and a forest stock volume of approximately 13.7 million m³ based on an assessment as at 30 June 2009. The total consideration for this acquisition was approximately RMB362.5 million (being the present value of the consideration as at date of acquisition) and has been fully settled. In order to expand our forest reserve further, in July 2008, we also acquired the Yunnan Wenshan Forest in Yunnan. This forest consists of plantation forests of approximately 100,000 hectares and has a forest stock volume of approximately 19.6 million m³, based on an assessment as at 30 June 2009. Unlike the other forests of the Group, we have not yet commenced harvesting activities in the Yunnan Wenshan Forest, and therefore there is no revenue generated pursuant to the harvesting and sales of logs from this forest. However, the fair value gain at the time of acquisition and the relevant fair value changes over the Track Record Period after the acquisition will not be affected by the harvesting activities, and the acquisitions of both Yunnan Luxi Forest and Yunnan Wenshan Forest contributed to the Group's profits from the Track Record Period due to their fair value gains on acquisition and their relevant fair value changes over the Track Record Period after such acquisitions. Currently the Group expects to commence harvesting of the Yunnan Wenshan Forest in 2011.

As a result of the above acquisitions, as at 30 June 2009, our forest area was 171,780 hectares, with forest stock volume of around [35.5] million m³ (based on an assessment as at 30 June 2009). For each of our Sichuan Forest, the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest, we have achieved an average wood yield (in terms of forest stock volume per hectare) of approximately 174.4 m³ per hectare, 231.6 m³ per hectare and 196.3 m³ per hectare respectively, as at 30 June 2009. According to the China Forestry Statistical Yearbook 2007, the PRC national average wood yield in 2007 was only approximately 71 m³ per hectare. In future, we will continue to seek opportunities to acquire other high quality forests in China. With the expansion in our forest reserves, we believe our sales and profitability will grow.

For the three financial years ended 31 December 2006, 2007 and 2008, we acquired forests of approximately 2,683 hectares, 7,850 hectares and 159,333 hectares respectively. The amount paid or payable for these acquisitions (excluding land use rights) was

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

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

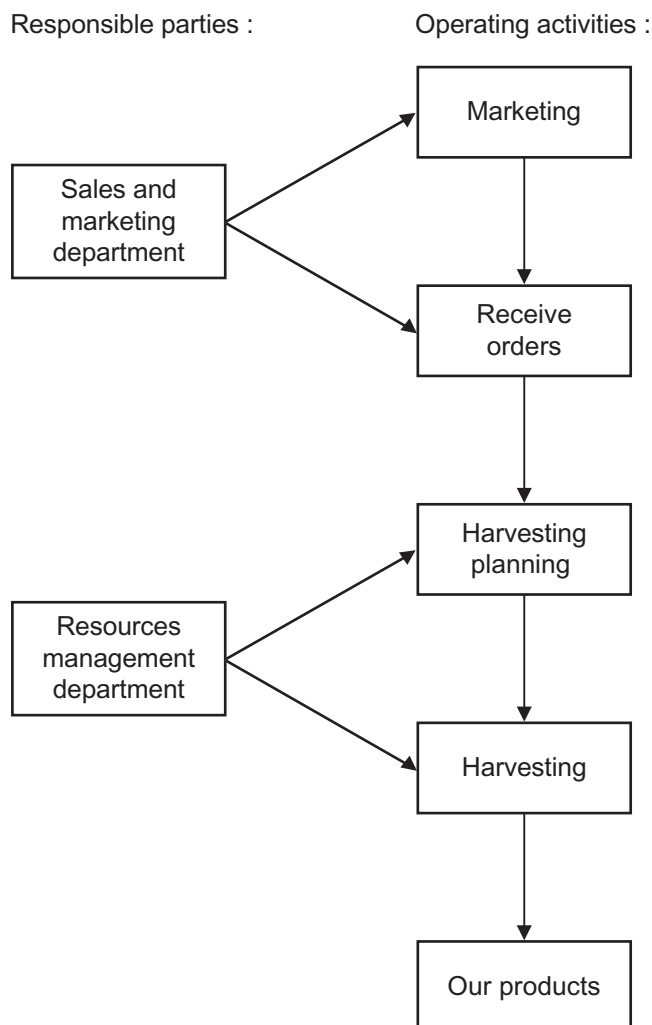
Our operations

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

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

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The following diagram shows a summary of our operations.



For the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, sales of Chinese fir logs accounted for approximately 94.5%, 96.6%, 33.9% and 22.6% of our total revenue respectively. Sales of Chinese fir logs decreased as a percentage of total sales when we began operating our Yunnan Luxi/ Shuangjiang Forest in May 2008. This forest includes Yunnan pine, beech and birch in addition to Chinese fir. For each of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our log sales volume was approximately 76,200 m³, 169,800 m³, 520,407 m³ and 321,930 m³, respectively, which represented a CAGR of approximately 161.3% between 2006 and 2008.

We have a system in place to manage and operate our forests, including our forest acquisition system. We are committed to sustainable forestry management practices. For each of the three years ended 31 December 2006, 2007, 2008 and 2009, we harvested timber at a rate of approximately 10.0%, 7.6%, 1.5% and 2.0% respectively (harvesting rate for 2009 is developed by annualising harvested volume for six months ended 30 June 2009), in terms of the wood volume harvested during the year relative to the total forest stock volume standing at the end of that year. Our harvesting rate will change with our harvesting method and harvesting standards. During the Track Record Period, we did not experience any material

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change in our harvesting rate that resulted in a material impact on our financial results. We expect to increase our harvesting rate by about 1% per year in both Sichuan and Yunnan Provinces over the next three to five years to reach a target harvesting rate of 8% to 9%, in terms of the wood volume harvested during the year relative to the total forest stock volume standing at the end of that year. Our harvesting and replanting of trees comply with the PRC Forestry Law and the relevant rules and regulations.

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

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

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

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

We are also in the process of applying to The Forest Stewardship Council, being a council established in the early 1990s by group of concerned business representatives, social groups and environmental organisations following the UN Conference on Sustainable Development in 1992. Its purpose is to improve forest management worldwide. FSC is a certification system that provides internationally recognised standard-setting, trademark assurance and accreditation services to companies, organisations, and communities interested in responsible forestry. The FSC Principles and Criteria describe how the forests have to be managed to meet the social, economic, ecological, cultural and spiritual needs of present and future generations. They include managerial aspects as well as environmental and social requirements.

The FSC label provides a link between responsible production and consumption of forest products, enabling consumers and businesses to make purchasing decisions that benefit

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people and the environment as well as providing ongoing business value. FSC is nationally represented in more than 50 countries around the world.

As at the Latest Practicable Date, the Company has yet to complete and obtain the FSC accreditation but expected to complete such accreditation process within the next two years.

Our Environmental Controls

Our policy

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

- Harvesting
 - (a) Our annual average harvesting rate, in terms of the wood volume harvested during the year relative to the total forest stock volume standing at the end of that year, does not exceed the maximum logging rate advised by the local forestry bureaus in Sichuan and Yunnan, which is 10% of our total forest stock volume.
 - (b) During each year, we will not harvest trees more than once from the same area.
 - (c) Our harvesting is performed selectively in one parcel of forest rather than clear logging over an extensive area.
 - (d) To minimise the environmental impact to our forests, we assess the forest and select trees for logging according to the growth conditions of the trees.
 - (e) We only harvest those trees which have met our harvesting standards, i.e. having a stem diameter greater than 20 cm, a stem length of not less than 15 m and aged at least 20 years.
- Logistics
 - (f) As it is our policy to minimise the environmental impact of our operations, roads leading to the main roads should only be constructed when absolutely necessary. Given that our forests are relatively close to roads or routes leading to the main roads, we have not constructed any new roads connecting our forests to the main roads during the Track Record Period.
 - (g) We do not deploy heavy machines to transport our timber downhill. Instead, the villagers and the professional harvesting teams we hired make use of the natural landscape such as a nearby river or the slope of a hill to transport timber, and where necessary, they will build cables for transport. As such, we believe that the environmental impact from their operations is minimised.
- Replanting
 - (h) Our replanting rate is at least 110% of the number of trees we harvest, which is higher than the minimum 100% replanting rate as required by relevant law.

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- (i) When replanting, depending on the characteristics of each specie of trees, we plan the location/position of the seedlings to ensure that there will be sufficient growing space for each seedling.
- (j) We achieve an average survival rate in the year of planting of approximately [90]%, exceeding the legal requirement of 85%.
- Improvement of forest industrial structure
- (k) Our Group and Beijing Forestry University plan to jointly establish a research centre, which will conduct research on the prediction and monitoring of the growth of trees planted in our forests, sustainable forestry management and other advanced forestry management technology and practices.

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

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

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

Governmental controls on environment

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

All of our forests are categorized as timber stands and commercially harvestable under the PRC Laws. For more details regarding forest classification, please refer to the section headed "Regulatory Overview — Forestry management and deforestation — Forestry management".

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

Each year, the forestry bureaus at the lower level (which is mainly the county level), based on their regular check on the conditions (including the maturity of trees and the forestry resources) and the forestry operation plans of all forestry lands within their respective area, prepare the proposed annual logging quota. The annual quota is reviewed by the local governments at the same level and is submitted to the forest bureau at the provincial level. The forestry bureaus at the provincial level are then responsible for compiling annual logging

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quotas by adjusting the proposed logging quotas submitted by the lower level forestry bureaus and submitting them to the PRC State Council for final approval. The governmental measures to monitor logging activities (including the amounts harvested by forestry operators) mainly include (a) prior approval in the form of the logging permit system; (b) examination of the actual logging amount during logging; and (c) transportation controls by using the timber transportation permit system. For more details, please refer to the section headed "Regulatory Overview — Forestry and deforestation" and "Business — Our sustainable forestry management."

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

Our compliance

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

In light of the position of the local forestry bureaus, our internal guidelines provide that our annual maximum logging amount should account for 10% of our total forest stock volume. Upon receiving an order from our customers, our resources management department will check (i) whether the aforesaid 10% annual logging cap has been utilized up to that moment; and (ii) the volume of logs in the order as compared to the un-utilized logging cap, to ensure our compliance with the anticipated annual logging cap. Furthermore, the relevant logging activities with a harvesting plan must be approved in advance by our chief administration officer. After selecting the appropriate forest for logging, we will apply for the logging permit with the local forestry bureau.

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

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and monitor all the actual logging amounts and the local forestry bureau will conduct selective examination of our logging activities.

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

<u>Year</u>	<u>Actual logging amount (m³)</u>	<u>Maximum amount permitted under logging permits (m³)</u>
2006	75,909	77,034
2007	169,329	169,329
2008	519,928	519,928
2009 (up to 30 June 2009)	[356,730]	[356,730]

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

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

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

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

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

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

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

We are not aware of any pollution or hazardous substance problems in our forests. CFK, our independent forestry consultant, advised that based upon its experience with the identification of the presence of hazardous substances (if any) in other forested areas, hazardous substance problems are most likely to occur where (1) chemicals (herbicides or

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fertilisers) were applied to the forest; or (2) there are large industrial plants in close proximity to the forests. CFK understands that no herbicides or fertilisers have been used on our forest areas, and that there are no large chemical-using industries located on the forest boundary or near to the forests themselves.

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

Our chairman

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

Our investors

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

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

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capital of our Company) from Kingfly Capital on 31 March 2008 for a consideration of US\$32,000,000 and US\$3,200,000 respectively.

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

Our customers

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

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our five largest customers in aggregate accounted for approximately 93.9%, 85.3%, 44.8% and 56.2% respectively, of our revenue. During the same period, our largest customer in each respective period accounted for approximately 47.1%, 22.7%, 9.7% and 12.8% respectively, of our revenue. As a result of our commencement of logging operations in Yunnan in May 2008, our five largest customers, for the two years ended 31 December 2007, were all located in Sichuan, and for the year ended 31 December 2008 and the first half of 2009, were all located in Yunnan. Of our five largest customers during the Track Record Period, we understand that one is a trading company and all the rest are wood-processing factories. Of these customers, 6 are located in Sichuan, 6 in Yunnan and 1 in Hangzhou. Each of them is an Independent Third Party. Our five largest customers first became our customers between [2003 and 2008]. To the best knowledge of our Directors, our five largest customers for the Track Record Period have operated for at least [3] years, their registered capital vary from RMB50,000 to RMB2,000,000, and their target customers are in [construction and furniture-making industries]. Payment for our products is made before delivery and none of our sales are made on credit terms.

Sichuan Earthquake and Yunnan Earthquake

On 12 May 2008, an earthquake with a magnitude 8.0 on the Richter scale hit Sichuan, killing tens of thousands of people and causing severe physical damage and following which, there were various aftershocks from the earthquake. We conducted a comprehensive inspection of our forests from 13 May to 23 May 2008 to assess the impact of the earthquake on our Sichuan forests, which are located in Ya An City, Le Shan City and Liang Shan Zhou and are approximately 183, 189.5 and 377.7 kilometres, respectively, from the epicentre of the earthquake. Our forest workers and dedicated forest team participated in the inspection. We

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examined all areas of our forests in Ying Jing county, Ya An City (totalling about 2,835 hectares and with forest stock volume of approximately 788,000 m³ as at 31 March 2008) because it is our forest closest to the epicentre and was more likely to suffer damage from the earthquake. We also examined, on a sampling basis, our forests in Le Shan City and Liang Shan Zhou where our other Sichuan forests (totalling about 9,612 hectares) are located. This examination covered a total of approximately 558 hectares of forests in Mei Gu Xian, Ma Bian Xian, Jin He Kou Qu, Jin Kou He Qu and Er Bian Xian. We inspected the forest and transportation conditions, and whether there were any loss or damage to our forestry assets. Based on our inspection, our Directors are of the view that the Sichuan Earthquake did not materially impact the condition of our tree stock and the roads surrounding our forests.

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

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

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

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

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

On 9 July 2009, an earthquake of magnitude 6.0 on the Richter scale hit Yunnan with its epicentre located in Yao An County. As a result, hundreds of people were injured and thousands of houses were damaged. Our forests in Yunnan are located in De Hong Zhou, Lin

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Cang City and Wen Shan Zhou which are approximately 312, 211 and 437 kilometres respectively, from the epicentre of this earthquake. We have visited our Yunnan forests after this earthquake and determined that it has caused no apparent damage to our forests and the roads surrounding our forests. We were also advised by our Yunnan customers that they were not materially affected by the Yunnan Earthquake. Accordingly, our Directors are of the view that the impact of the Yunnan Earthquake to our assets, operations and financial positions is minimal.

Global Financial Crisis

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

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

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

In light of the foregoing, our Directors believe that our financial performance will not, in the near term, be materially and adversely affected by the current weak economic outlook.

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COMPETITIVE STRENGTHS

We have a large, sustainable and high quality forest resource base.

We have a large, sustainable and high quality forest resource base consisting of forests covering a gross area of approximately 171,780 hectares as at 30 June 2009, with an average ownership term of at least twenty years. We regard our forests of high quality as they possess a high forest stock volume and are immediately harvestable. All our forests can be commercially harvested in accordance with the relevant government rules as they are classified as timber stands under the functional categorisation of forest by the SFA.

As at the Latest Practicable Date, our forests possessed a forest stock volume of approximately [35.5] million m³ (based on an assessment as at 30 June 2009). For each of our Sichuan Forest, the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshen Forest, we have achieved an average wood yield (in terms of forest stock volume per hectare) of approximately 174.4 m³ per hectare, 231.6 m³ per hectare and 196.3 m³ per hectare, respectively, as at 30 June 2009. According to the China Forestry Statistical Yearbook 2007, the PRC national average wood yield in 2007 was only approximately 71 m³ per hectare.

Our major tree species is Chinese fir (*Cunninghamia lanceolata*), which accounts for approximately 71.1% of our forest area. Chinese fir is a softwood tree, and its wood is highly durable, easily worked, resistant to insects and termites, and is commercially and widely used for making wood panels, plywood, furniture and pulp. Approximately 17.7% of our total forest area is planted with birch (*Betula alnoides*), a hardwood tree, which wood is strong and durable, and is used for producing a variety of solid wood-based products including wood panels, furniture, flooring and construction materials. Due to its relative hardness, birch log is generally more expensive than softwood log. For example, according to the China Forestry Statistical Yearbook 2007, the average birch log price in China for 2007 was about 1.4 times of the average fir log price.

While over two-thirds of China's forests are classified as young and middle-aged, over 90% of our forests are around 18-60 years old and immediately harvestable. We have implemented and will continue to implement various practices that embrace and adopt sustainable forest management. For every 100 trees that we harvest, we replant at least 110 new trees within a year after the month of actual logging. Our replanting rate is at least 10% higher than what is required under the relevant PRC law, which stipulates that the replanting area and quantity cannot be lower than the harvest area and quantity. Our long-term investment in our forest resources and our commitment to sustainable forest management enable us to secure an increasing and sustainable supply of timber.

Our forests are strategically located.

Currently all of our forests are strategically located in Yunnan and Sichuan Provinces. According to the China Forestry Statistical Yearbook 2007, these two provinces possessed approximately 15.6 million hectares and 14.6 million hectares of forest respectively and ranked third and fourth largest respectively in terms of forest area. Each of Sichuan and Yunnan

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Provinces possesses forest stock volume of 1,495.4 million m³ and 1,399.3 million m³ respectively, and is the second and the third largest respectively in terms of forest stock volume in China. Under the current logging quota regime in China, the State Council sets a national logging quota every five years and approves the annual logging quota for each province. According to China's national logging quota during the 11th five-year plan period (2006-2011), Yunnan has obtained the largest logging quota among all provinces, which is approximately 31.5 million m³ and represents approximately 12.7% of the national logging quota. Sichuan's annual logging quota for the same period is approximately 13.2 million m³ and represents approximately 5.3% of the national logging quota. The location of our forests in Yunnan and Sichuan Provinces enables us to possess some of the most timber-rich and commercially harvestable forest areas in China.

Furthermore, the GDP of Yunnan province grew at an average rate of approximately 10.6% per annum between 2003 and 2007. According to CFK, the strong growth in both GDP and population in the southwest region of China (which include Sichuan, Chongqing, Yunnan, Guizhou and Tibet) supports the demand for additional housing and increased timber consumption, and we believe that this growth in the regional economy will continue. In addition, new highways or railways leading to city centres are being built around Ya An City and Luxi, De Hong Zhou where our current forestry operations are primarily located. We believe that the improvement of transportation in these areas will lead to an increase in the demand for our products.

We have a good track record of forest acquisition and prospects for future acquisitions.

We have grown primarily through acquisitions of high quality forests in Sichuan and Yunnan Provinces. Our forest reserve has been growing over the years and our total forest area increased at a CAGR of approximately 510.9% between 2006 and 2008. Our total forest area as at 31 December 2006, 2007 and 2008 was approximately 4,603 hectares, 12,453 hectares and 171,780 hectares respectively, and our total forest stock volume as at 31 December 2006, 2007 and 2008 was approximately 1.3 million m³, 3.5 million m³ and 35.5 million m³ respectively. In March 2008, we acquired the Yunnan Luxi/Shuangjiang Forest in Yunnan. This forest includes both naturally regenerated and plantation forests and has an area of approximately 59,333 hectares. To further expand our forest reserve, we further acquired the Yunnan Wenshan Forest in Yunnan in July 2008. This forest is plantation forests of approximately 100,000 hectares. Although the purchase price has not been fully settled, the forestry rights have already been transferred to us as a matter of PRC law, and we have already obtained the relevant forestry right certificates for this forest. Therefore we now own the forest trees and the usage rights of the forest trees and forest land, in respect of this forest. For the six months ended 30 June 2009, we have not acquired any new forests. As at 30 June 2009, our forest area was [171,780] hectares, and our forest stock volume was around [35.5] million m³ (based on an assessment as at 30 June 2009). We believe that our current experience to date in the expansion of our forest resources will help us achieve our goal of becoming a leading privately-held forestry operator in the Asia Pacific region.

According to the SFA's Major Results of the Six National Forest Resources Survey, China has timber stands of approximately 78.6 million hectares. With China's supportive policy of encouraging private enterprises to participate in forestry, we believe there are good opportunities for us to further expand our forest reserve by acquiring additional high quality forests in China.

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We were one of the first enterprises to take advantage of the PRC government's No. 9 Policy in 2003 which set out the directive for the private sector to participate in China's forestry development, and our management has built up broad experience in China's forestry. The fact that our forest area increased at a CAGR of approximately 510.9% between 2006 and 2008, our sales increased over seven fold between 2006 and 2008 and our profit for the year had also increased, demonstrates our management's ability in identifying suitable targets, complying with related state and local regulations and effectively integrating newly acquired forests into existing operations. We have also established a network with our business partners, the forestry bureaus, our consultants and the CCPEF. Being the only privately-held member company and a council member of the CCPEF, we are better able to obtain, easily and quickly, the first-hand information on the latest development of the forestry industry in China. We identified suitable forests for acquisition based on the information we obtained from the forestry industry. We believe our experience and knowledge will allow us to compete effectively, and more easily identify acquisition targets and consummate acquisitions in a timely and cost efficient manner, especially in Sichuan and Yunnan Provinces.

We have established a system for acquisition of forestry resources. We go through the stages of sourcing acquisition targets, on-site inspection by our dedicated forest team, valuation by an independent forestry valuer and management discussion before we decide to purchase a new forest. We believe that our policy of inviting the individuals who previously owned the forest to work in our forests is unique in China's forestry sector. This policy has won us the reputation of being socially responsible within the local communities and the local governments, making us more competitive in our acquisition of new forests.

Our harvesting rate has a large growth potential.

Under the PRC Forestry Law, the PRC strictly implements a quota system for the logging of forest trees. We have been advised by the local forestry bureaus in Sichuan and Yunnan that our maximum logging amount each year is 10% of the total forest stock volume of all our forests. For each of the four financial years ended 31 December 2009, we harvested timber at a rate of approximately 10.0%, 7.6%, 1.5% and 2.0% respectively (harvesting rate for 2009 is developed by annualising harvested volume for six months ended 30 June 2009), in terms of the wood volume harvested during the year relative to the total forest stock volume standing at the end of that year. In that regard, there is ample room for us to increase our harvesting rate before reaching the 10% maximum logging amount as advised by the local forestry bureaus in Sichuan and Yunnan.

We have an operating system in place and are a socially responsible and environmentally friendly company.

Our standard of forestry operations was recognised by our award of the Authentication Certificate of Quality Management System (GB/T19001-2000 idt ISO9001:2000), Environmental Management System (GB/T24001-2004 / ISO14001:2004) and Occupational Health and Safety Management System (GB/T28001-2001) issued by Beijing NGV Certification Centre, an approved accreditation body in China.

We have an operating system in place for managing and operating our forests, and the harvesting and sales of our products. To ensure the quality of our products and the sustainability of our forest resources, we have established a set of harvesting rules and standards which comply with our logging permits and the relevant harvesting regulations as

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set by the PRC Forestry Law and relevant government regulations. We only harvest trees meeting our specified requirements of stem diameter, stem length and age. To ensure the long-term supply of timber from our forest resources, we have also established a set of rules and standards for replanting, such as replanting trees at the rate of at least 110% after logging, exceeding the 100% minimum legal requirement and requiring the survival rate of new saplings in the year of planting be not less than 85%.

Being committed to sustainable forest management, we employ systematic forest management practices and adopt prudent environmental management of our forests. The daily management of our forests is carried out by our local forest workers who are supervised by our dedicated forest team. Our dedicated forest team regularly visits our forests to monitor and report conditions and to ensure regulatory compliance. Our information system enables us to effectively record and monitor logging, tree replanting, changes in forest stock volume, forestry operations and forest health. We have also set up procedures for pest control and fire prevention.

We are also a socially responsible and environmentally friendly company. We believe in striking a balance between the increasing demand for forest resources and the preservation of ecology. Through our commitment to respect the environment as well as the communities that surround our forests, we believe that we gain local acceptance for our activities and build upon our favourable reputation. We believe that this helps us distinguish ourselves from other forestry companies and gives us a competitive advantage as we expand our operations into new areas and acquire new forests.

We have a strong team of professional managers and consultants and an internationally well-known institutional investor.

The Chinese government's No. 9 Policy in 2003 set out the directive for the private sector to participate in China's forestry development. Our Group was one of the first enterprises to take advantage of this policy and have been building our forest reserve through acquisitions since 2003. Throughout the years, we have developed extensive local forestry and management expertise in the China market. We have built up an experienced executive team committed to our long term success. The chairman of our Company and the founder of our Group, Mr. Li Kwok Cheong, is a council member of the CCPEF. Mr. Li Han Chun, our executive Director and general manager, is also experienced in business management and is a council member of the CCPEF. Our management team has customised our operations to serve the China market, including adopting our policy of engaging previous forest owners to be our forest workers, which we believe, is unique in China's forestry industry.

To further capture the business opportunities and improve our operations, we have retained two forestry consultants, namely Mr. Meng Fan Zhi and Mr. Ma Lu Yi. Mr. Meng is the secretary of the CCPEF, and Mr. Ma is a professor at the Beijing Forestry University. We have entered into consultancy agreements with each of them, pursuant to which they are to provide us with information and advice on the State's forestry policies as well as on our business proposals.

The Carlyle Funds, as part of the Carlyle Group, and the Partners Group Funds, which are advised by Partners Group, both being international private equity firms, are institutional investors in our Company. The Carlyle Funds and the Partners Group Funds have agreed to use their best efforts to assist the Company with corporate governance, recruitment of

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management, and development of international and domestic markets. We believe that their international management experience in various industries will help us enhance our corporate governance and management as well as help us expand our markets.

In particular, with the assistance of Carlyle Funds, the Company is currently seeking to engage a management consultancy firm to improve the Group's internal controls system with an aim to enhance the Group's corporate governance. The Carlyle Funds have also assisted the Company in searching and recruiting qualified and experienced management personnel through their global network. For example, Mr. Wong Tak-jun, the independent non-executive director, was introduced to us by the Carlyle Funds. Although the Carlyle Funds do not have any management experience in forestry industry, they have invested in the forestry upstream business, wood-processing business and other forestry downstream businesses and are now assisting the Group to broaden its customer base domestically and internationally by introducing potential customers to the Group.

INDUSTRY OPPORTUNITIES

We believe that we are well positioned to benefit from the following industrial opportunities:

Tight global supply for wood

According to the FAO's Global Forest Resources Assessment 2005, global forest area continued to decrease during 1990-2005, although the rate of net loss slowed. Forest area in the world was decreasing at a rate of 7.3 million hectares per year during the period of 2000–2005. Thus, the global supply of wood continues to be tight. We believe that our existing forest resource base, together with our ability to acquire additional forests, positions us to benefit from the tight global supply for wood.

High demand for wood in China

China's domestic wood supply is insufficient to meet its increasing demand. The ITTO 2008 Report forecasted that China would have a shortage (domestic consumption exceeding production) of 29.5 million m³ logs and 6.2 million m³ sawnwood in 2008. The WWF's report, entitled "China's Wood Market, Trade and the Environment", projected that by 2010 China's domestic industrial wood supply would be 114 million m³ and the import volume needed to match its demand would be 125 million m³. We have a large reserve of forests which amounted to a gross area of approximately 171,780 hectares as 30 June 2009, over 90% of which are around 18-60 years old and immediately harvestable. Our large sustainable forest resources position us well to benefit from the shortage in supply and the high demand for wood in China.

Supportive government policies in China

The Decision of the Central Committee of the Communist Party of China and the State Council on Accelerating the Development of Forestry (中共中央、國務院關於加快林業發展的決定 (中發[2003]9號)) promulgated on 25 June 2003 ("No. 9 Policy"), sets the legal framework for developing a forestry industry which allows individuals, private enterprises and even foreign investors to participate. The No. 9 Policy also sets out directives for improving the forest assets ownership system and promoting the transfer of rights to use forest trees and forest land. The Outline of Policy on Forest Industry (關於印發《林業產業政策要點》的通知

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林計發 (2007) 173號)) jointly announced by seven state bureaus of the PRC including the SFA in 2007 further strengthened the No. 9 Policy and encouraged local and foreign investment in forestry, use of forest resources as security for bank loans, financing of forestry enterprises through initial public offerings and tax concessions for forestry enterprises. We have captured the opportunity made available under these policies by being one of the first private enterprises to acquire forests in 2003. On 8 June 2008, the Central Committee of the Communist Party of China and the State Council issued an Opinion on Comprehensively Promoting the Reform of the System of Collectively-owned Forestry Rights (中共中央國務院關於全面推進集體林權制度改革的意見). Pursuant to this, the State will promote the reform of the system of collectively-owned forestry rights to enable the villagers to more easily obtain the ownership of forest trees, the use right of forest land and the management right of the forests. It will simplify the legal formalities for management of logging activities and the approval procedures, and will support the establishment of leading forestry enterprises and promote the large-scale forestry production and standardisation of the forestry management. We expect that if the above was fully implemented, we would be in a better position to manage our forests and acquire new forests from the villagers. We believe that our business model and our ability to access information on State forestry policies and future developments of the forestry industry have placed us in an excellent position to continue to take advantage of China's supportive policies in China's forestry industry. To the best knowledge of our Directors, the PRC government has not announced any material measures for implementing the policies of supporting the use of forest resources as security for bank loans and financing of forestry enterprises through initial public offerings, however the tax concessions have been implemented for forestry enterprises by exempting their enterprise income tax and providing a preferential VAT of 13% compared with a standard VAT of 17%.

Lower proportion of immediately harvestable forests in China

According to the SFA's Major Results of the Sixth National Forest Resources Survey, the young and middle-aged forests represent a larger proportion in China's forests, and account for approximately 67.9% of national forest area and approximately 38.9% of national forest stock volume. The young and middle-aged forests are generally not harvested until they become mature. In our forests, however, over 90% of our trees are around 18-60 years old and immediately harvestable and the logs we sell are harvested from selected trees with average stem diameter of 20 cm. The quality and age of our forests position us well to capture the demand for high quality timber and large-diameter logs.

Favourable pricing environment for timber resources

According to the SFA's Analysis of 2007 National Forestry Industry Statistics Annual Report, the log average price in 2007 was RMB638 / m³ which represented an approximately 5.28% increase from 2006. The ITTO 2008 Report forecasted that China would have a shortage (namely the domestic consumption exceeds its production) of 29.5 million m³ logs and 6.2 million m³ sawnwood in 2008. We expect the shortage of supply of timber in China will continue to drive a positive price environment and lead to increase in timber price over the coming few years. We believe that our good quality timber allows us to take advantage of such favourable pricing environment.

OUR FUTURE PLANS

Our aim is to build on our strengths to become a leading player in the privatisation process of the forest industry and a leading integrated forest resources company in the Asia

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Pacific region. We are seeking opportunities to acquire other high quality forests in China. With the expansion in forest reserves, we believe our sales and profitability will increase. At the same time, we plan to further improve our business management and operations to cope with our rapid expansion, by recruiting experienced talent in the forestry industry, recruiting qualified university graduates specialised in forestry and forestry science, and engaging forestry consulting firms to work for us. Our Directors are of the view that the amount and timing of our capital expenditure plans in the near future will be highly dependant on the cash flow generated from our operations.

Seek rapid and sustainable growth through the acquisition and expansion of our forest reserves

We have achieved rapid growth primarily through strategic acquisitions of forest resources at relatively low costs. Since 2003 we have acquired forests of approximately 171,786 hectares, which includes the Yunnan Luxi/Shuangjiang Forest we acquired in March 2008 and the Yunnan Wenshan Forest we acquired in July 2008. The Yunnan Luxi/Shuangjiang Forest consists of naturally regenerated and plantation forests and has an area of approximately 59,333 hectares and a forest stock volume of approximately 13.7 million m³ based on an assessment as at 30 June 2009. Approximately 73.9% of this forest is at least twenty years old and immediately harvestable. The Yunnan forests have expanded our tree species to cover hardwood trees such as birch (*Betula alnoides*) and beech (*Fagus spp.*), which represent approximately 17.7% and 5.9% respectively of our total forest area and which logs are more expensive than softwood trees.

To expand our forest reserve, we further acquired the Yunnan Wenshan Forest in July 2008. This forest is plantation forests and has an area of approximately 100,000 hectares and a forest stock volume of approximately 19.6 million m³ based on an assessment as at 30 June 2009. The present value of the total consideration for this acquisition was RMB551.6 million of which approximately RMB[508.29] million has been paid as at the Latest Practicable Date and the unpaid balance plus interests accrued thereon of approximately RMB[103.41] million will be fully settled by 31 December 2009 with the Group's internal resources. Although the purchase price has not been fully settled, the forestry rights have already been transferred to us as a matter of PRC law, and we have already obtained the relevant forestry right certificates for this forest. Therefore we now own the forest trees and the usage rights of the forest trees and forest land, in respect of this forest. As at 30 June 2009, our forest area was 171,780 hectares, and our forest stock volume was around 35.5 million m³ (based on an assessment as at 30 June 2009). This forest is planted with Chinese Fir, and is aged around 17-22 years and immediately harvestable. Its forest stock volume, as assessed as at 30 June 2009, is approximately 19.6 million m³.

On 16 July 2008 and 21 July 2008, we entered into non-binding memoranda with the governments of Ning Lang Xian and Liang He Xian, respectively, to confirm our interest in acquiring 200,000 hectares in Ning Lang Xian, Li Jian City, Yunnan, and approximately 66,667 hectares of forest in Liang He Xian, De Hong Zhou, Yunnan respectively. Pursuant to these memoranda, (1) the government of Ning Lang Xian will assist us to secure our possible acquisition of 200,000 hectares of forest in Ning Lang Xian, with transfer priority given to us; and (2) the government of Liang He Xian will assist us to secure our possible acquisition of approximately 66,667 hectares of forest in Liang He Xian, with transfer priority given to us. We are still in the process of obtaining and assessing details of the above forests and the final

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terms of our cooperation with these governments are not yet been concluded. Our PRC legal advisers have advised that these memoranda are not legally enforceable.

In respect of Ning Lang Xian, Kunming Ultra Big has entered into a framework agreement with the people's government of Ning Lang Xian on 17 September 2009 which is legally binding to the extent the people's government of Ning Lang Xian as a contracting party will assist the Group to acquire 800,000 mu (approximately 53,000 hectares out of the 200,000 hectares of forests as prescribed in the non-binding memorandum) of forests at a price no more than RMB600 per mu from the relevant owners of such forest (which, as at the date of the framework agreement, the identities of such owner(s) have not been identified). There is no capital commitment in respect of the forest acquisition prescribed under this framework agreement during the period of this framework agreement (that is, 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. In carrying out its operations, Kunming Ultra Big shall observe and strictly adhere to national laws and regulations as well as policies issued by the people's government of the local county. In the event Kunming Ultra Big undergoes reorganisation, liquidation or where there is material adverse change to the financial position of Kunming Ultra Big, or it is sanctioned as a result of contravention of relevant national laws or regulations, Kunming Ultra Big shall report the same to the people's government of Ning Lang Xian and Kunming Ultra Big shall solely be responsible of such liabilities. Kunming Ultra Big shall also report to the people's government of Ning Lang Xian the status of its investment pursuant to such agreement. 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. As the Company has not decided on which particular forest to be acquired in Liang He Xian [as at the Latest Practicable Date], no such information is available in respect of Liang He Xian at this stage.

Our turnover increased from approximately RMB70.1 million in 2006 to approximately RMB160.3 million in 2007 and further increased to approximately RMB544.9 million in 2008. Our turnover for the six months ended 30 June 2009 was approximately RMB373.2 million. We have historically been able to achieve timely and relatively low cost expansion of our forest resources and business operations through strategic planning of our acquisitions and will continue to pursue a similar strategy in the near future. In order to become a leading upstream supplier of timber and logs to downstream users in China in the construction, furniture, interior décor materials, wood products and paper industries, we will continue to invest in additional sustainable, high quality, immediately harvestable forests in our existing geographic locations.

In view of the relatively high quality of forests in Yunnan and Sichuan as compared to the rest of the forests in China, currently our primary forest acquisition targets are in these two provinces. However, we will also consider to acquire forests in other provinces of China if we can find high quality forests there and they meet our acquisition criteria.

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Increase our harvesting rate

We expect to increase our harvesting rate in the next three to five years while we continue to practise sustainable forestry management. We replant new trees when existing trees are logged at the rate of at least 110%. We also perform selective logging to reduce the impact to the environment. Therefore our forestry operation is sustainable, even if we do not make any further forest acquisitions. We expect to increase our harvesting rate in both Sichuan and Yunnan. Consistent with our policy of ensuring sustainability in our forest and minimal environmental impact, it is expected that our harvesting rate will increase by about 1% per year in our forests in both Sichuan and Yunnan Provinces over the next three to five years to reach a target harvesting rate of 8% to 9%.

We expect to maintain the harvesting rate in our Sichuan forest at around 8% to 9%. On the other hand, as soon as we complete the full integration of the newly acquired the Yunnan Luxi/Shuangjiang Forest into the Group, we intend to gradually increase the harvesting rate in such forest from approximately 2.5% in 2008 to approximately 4.4% in 2010. It is also expected that we will commence harvesting in the Yunnan Wenshan Forest which we acquired in July 2008 in 2011. Although the Yunnan Wenshan Forest was acquired in July 2008, the Company has been progressing its harvesting plan for the purpose of optimising the utilisation of the Yunnan Wenshan Forest in consultation with the local forestry bureaus across a number of counties responsible for the Yunnan Wenshan Forest. In light of the large size of the forest and the number of local forestry bureaus involved, the Company expects to complete its discussions with the local forestry bureau in respect of its harvesting plans by end of 2009 or early 2010. As such the Company will only apply (currently expected to apply in 2010) for 2011 logging permits to commence harvesting after such harvesting plan is finalised.

The Directors has confirmed that save for the time necessary to come to agreement with the forestry bureaus on its harvesting plans, it is not anticipated for there to be any material impediment in commencing its harvesting activities in the Yunnan Wenshan Forest. As the Group has not yet commenced harvesting activities in the Yunnan Wenshan Forest, there is no revenue generated pursuant to the harvesting and sales of logs from this forest. However, the fair value gain at the time of acquisition of the Yunnan Wenshan Forest and the relevant fair value changes over the Track Record Period after the acquisition of the Yunnan Wenshan Forest contributed to the Group's profits from the Track Record Period. Currently the Group expects to commence harvesting of the Yunnan Wenshan Forest in 2011.

We plan to increase our harvesting rate by expanding our sales team and network in Sichuan and Yunnan Provinces as well as strengthening our overall management and information management systems (please refer to the section headed "Business — Our Future Plans — Further strengthen our overall management and information systems" for details). It is our long term objective that our forests in Sichuan and Yunnan can achieve an average harvesting rate of approximately 8% to 9%.

Carry out research and development on sustainable forest management and quality tree seedlings

To cope with the expansion of our business operations, we plan to carry out research and development on sustainable forest management, improvement of tree seedlings, breeding, growth monitoring and silvicultural operations. We have established a good relationship with professional bodies in forestry industry such as the CCPEF and Beijing Forestry University.

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We intend to cooperate with these professional bodies for our research and development. Beijing Forestry University, which was established by the Ministry of Education and the SFA in China, is one of the key institutions of higher education in China for conducting research and providing higher education in the studies of forestry and ecological environment.

On 2 April 2008, we entered into a cooperation memorandum with Beijing Forestry University regarding research and development and professional recruitment. According to the memorandum, we have agreed to recruit their qualified graduates to work for us, engage the university to provide forestry training for our staff, and provide internship opportunities to their qualified graduates. We and Beijing Forestry University also plan to jointly establish, by end of 2010 (i) a research centre, which will conduct research on the prediction and monitoring of the growth of trees planted in our forests, sustainable forestry management and other advanced forestry management technology and practices; and (ii) a seedling centre (which is different from saplings centres to be established by the Group in Sichuan and Yunnan) to nurture seedlings and conduct research on nurturing and improvement of seedlings, and other technology for speeding up tree growth. However, details of the above cooperation are yet to be finalised. Please refer to "Financial Information — Indebtedness — Contractual Obligations" for details.

We expect that research and development proposals will be prepared by our chief executive officer and submitted to our Board for approval. Our chief resources officer will be responsible for their implementation, and one of our joint chief financial officers will be responsible for monitoring the relevant expenditure. Regular reports on the progress of the research and development will be submitted to our Board for review.

We will continue to seek to improve the quality of our products through such research and development efforts. We believe that products of higher quality usually command higher prices in the market, and the development and production of higher quality products is important in maintaining our competitive advantage. By investing in research on faster growing trees, we can increase harvesting rates of mature trees and our timber production.

Further strengthen our overall management and information systems

We plan to further improve our business management and operations to cope with our rapid expansion by engaging professionals with experience in and knowledge of the forestry industry and by adopting international management systems. We anticipate that we will make additional investment in personnel, management and technology in order to improve our management and information systems. We plan to establish a professional forestry management team by recruiting qualified graduates from Beijing Forestry University and other experienced professionals. We expect to spend approximately RMB0.6 million for professional recruitment during 2009. We also plan to engage forestry consulting firms to improve our management and operation of forests.

As we expand our forest base, we will seek to develop additional management systems to achieve greater planning and operational control of our forests. We will seek to develop a more robust data capturing and recording system to record log removals by location, changes in growing stock, forestry operations and forest health. This will allow us to conduct more frequent sampling checks of our timber resources, monitor the condition of the forest and provide an auditable record of activities undertaken, and would, in turn, allow us to analyse planting statistics, including growth conditions and forest quality more quickly.

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As part of our effort to strengthen our information system, on 21 May 2008, we entered into a consulting agreement with a consulting company, which is an Independent Third Party, for the provision of information management system consulting services. Pursuant to this agreement, the consulting company has conducted, at a fee of RMB1 million, a full examination of our existing information management system and issued a proposal to us. It recommended that we establish an information management system which consists of (1) a fundamental information management system for centrally processing the information of different application systems; (2) a sales management system for managing the sales plans, sales orders and tracking the performance of sales contracts; (3) a logistics management system for managing inventory and distribution of products; and (4) a resources management system for managing the activities of logging and replanting. The consulting company also recommends us to install advanced information processing technology such as GIS and GPS in our information management system. In view of these recommendations, we have engaged Shanghai SVA Communication Co., Ltd. ("SVA"), an Independent Third Party and to our best knowledge, which is not connected with the above-mentioned consulting company, to implement the information management system.

SVA has provided us a proposal ("SVA Proposal") for implementation of information management. According to this proposal, we will implement the information management system in three phases: (1) preliminary phase with estimated cost of RMB 10 million to provide a basic setup and functioning of a platform for information management; (2) intermediate phase with estimated cost of RMB19.4 million to enhance the information management system; and (3) final phase with estimated cost of RMB14.4 million to provide a comprehensive information management system.

On 17 July 2008, we and SVA entered into agreements for the implementation of the preliminary phase of the SVA Proposal. SVA will install the following systems for us:

- (i) ORACLE ERP (Enterprise Resources Planning) system, which consists of various modules for management of general ledger, payable, receivable, fixed assets, cash, purchasing, inventory and order, and hence establishes a fundamental information management system, with a sales management system and a logistics management system as recommended; and
- (ii) a forestry resources management system, which uses satellite with technology such as GIS/GPS, for collection and transmission of data gathered from forests for managing the activities of logging and replanting as recommended. Such data can be classified into two types: (i) digital data, such as the records of inspection of forest prepared by our forest workers; and (ii) visual image, such as the video image of a specific location of our forest or its activities.

In addition, we have agreed to purchase from SVA related software and hardware including a satellite portable station which contains, among other things, a GPS receiver, which cost approximately RMB2.8 million and RMB1.4 million respectively, payable as to 70% within 12 working days from the date of the relevant agreement and as to the remaining 30% within 12 working days from the receipt of the software and the installation of the hardware respectively. SVA will install the software and hardware for us and provide training to our staff on their use. In light of the large volume of data to be subject to such systems management and the internal reorganisation which SVA had been carrying out, the internal resources

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designated by SVA to our Group's project means that the implementation of these systems is expected to be completed by [end of 2010].

In addition to the purchase price of the above software and hardware, we are required to pay SVA a sum of approximately RMB4.8 million for the implementation of ORACLE ERP system and a sum of approximately RMB1 million for the implementation of the forestry resources management system.

We paid and expect to pay the following amounts for the implementation of the preliminary phase of the SVA Proposal:

1. approximately RMB6.2 million already paid in the second half of 2008; and
2. approximately RMB3.8 million to be paid by end of 2009.

We expect to enter into agreements with SVA for implementing the intermediate and final phase of the SVA Proposal around end of 2009 and [August 2010] respectively. As at the Latest Practicable Date, the Group has completed the general hardware implementation of the ORACLE ERP system, office automation system as well as the GPS system. As the software of such systems are still being fine tuned to meet the requirements of the Group, SVA is in the process of further improve such software systems. Once the implementation of the software system is completed, the Group will then move forward to the intermediate phase of implementation of the information systems. The Group has designated its assistant administrative officer to liaise with and supervise the implementation carried out by SVA so as to ensure that the information system could be timely completed by end of 2010. The administrative officer reports to the general manager of the Group on a weekly basis regarding progress of the implementation of the information systems, and the Directors will also closely monitor the status and progress of the implementation of such information systems.

The installation of the above systems will enable us to use satellite to monitor our forests and more timely and effectively manage our forestry operations. By using portable station to transmit the data with the satellite, we can monitor the forest environment and condition including the third parties activities, in real time. Upon completion of the implementation of the above systems, our information management system and our ability of surveillance of the conditions for third party activities and environmental problems of our forests, is expected to be significantly improved.

We will continue to invest in improving our information management system.

Continue practising responsible environmental forestry

We believe that environmentally sound management practices will ensure the sustainable development of forest resources and provide greater predictability in plantation management. Our forestry management practices follow a set of internal environmental principles, which are aimed at the sound management of natural resources. We intend to follow these management practices for additional forests to be acquired in the future. We will continue to implement and improve our environmental management, including but not limited to, where appropriate, following the international environmental best practice, to help improve the ecological and social environment of our forests. We are still looking for a suitable assessment company with the capacity or experience in performing the environmental impact assessment for forestry industry. When we have found it, we will complete our environmental impact report form in

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Yunnan and then implement the suggestions or measures contained in such report, where appropriate.

OUR FORESTRY ASSETS

Overview

As at [30 June 2009], we owned forests covering a gross area of approximately 171,780 hectares of forests located mostly in Yunnan and Sichuan Provinces, which includes the Yunnan Luxi/Shuangjiang Forest we acquired in March 2008 and the Yunnan Wenshan Forest we acquired in July 2008. The Yunnan Luxi/Shuangjiang Forest consists of naturally regenerated and plantation forests and has an area of approximately 59,333 hectares. The consideration for acquiring this forest has been fully settled. The Yunnan Wenshan Forest is plantation forests and has an area of approximately 100,000 hectares. The total consideration for acquiring this forest is RMB551.6 million. As at the Latest Practicable Date, approximately RMB[508.29] million has been paid for this acquisition and the unpaid balance plus interests accrued thereon of approximately RMB[103.41] million will be fully settled by 31 December 2009 with the Group's internal resources. Although the total purchase price of this forest has not been fully settled, its forestry rights have already been transferred to us as a matter of PRC law, and we have already obtained its relevant forestry right certificates. Therefore we now own the forest trees and the usage rights of the forest trees and forest land, in respect of both the Yunnan Luxi/Shuangjiang Forest and the Yunnan Wenshan Forest. As at the Latest Practicable Date, our forest stock volume was around [35.5] million m³ in aggregate (based on an assessment as at 30 June 2009).

All our forests can be commercially logged in accordance with the relevant government rules. We have the necessary legal rights over our forests in the PRC and the relevant forestry right certificates to evidence our ownership of the trees, our rights to use the forest land and our rights to use the forest trees. As advised by our PRC legal advisers, our forest land use rights, forest trees use rights, and forest trees ownership rights are transferable as long as the transfer is conducted in accordance with PRC law (including the requirement that a forest land cannot be converted into a non-forest land). We currently have no intention to transfer its forestry rights as we expect China's demand for timber will continue and there is a good prospect for China's timber industry. Our PRC legal advisers further advised that our legal rights over our forests in the PRC are not subject to any mortgage or any third party rights.

The following table sets forth a summary of our owned forest resources as at 30 June 2009, by location and nature of forest.

Location	Area (hectares)		
	Plantation Forest	Naturally Regenerated Forest	Total
Sichuan Province	12,447	0	12,447
Yunnan Province	118,800	40,533	159,333
Total	131,247	40,533	171,780

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The following table sets forth a summary of our owned forest resources as at [the Latest Practicable Date], by year of forest establishment/formation and tree species.

Year of forest establishment/formation	Area (hectares)						Total
	Birch	Fir	Beech	Pine	Fir Cedar Birch Mix	Pine Alder Mix	
Sichuan Forests							
1983					80	187	267
1984		760			62	88	910
1985		737					737
1986		2,683					2,683
1987		7,765			85		7,850
Total		11,945			227	275	12,447
Yunnan Luxi/Shuangjiang Forest							
1947-1966				5,781			5,781
1967-1976				1,586			1,586
1977-1988				1,014			1,014
1989-				286			286
Up to 1982	21,280	7,093	7,093				35,466
After 1982	9,120	3,040	3,040				15,200
Total	30,400	10,133	10,133	8,667			59,333
Yunnan Wenshan Forest							
1986-1991		100,000					100,000
All Total	30,400	122,078	10,133	8,667	227	275	171,780

All our forests were acquired directly from forest owners who are Independent Third Parties. The transferors were the villagers (individuals), the villages (rural collective economic organisations) or a company who owned the relevant (i) forest land or land use right; and (ii) the forest. During the Track Record Period, our forest acquisition (except the acquisition of the Yunnan Wenshan Forest) was entirely financed by our internal resources. In March 2008, we acquired the Yunnan Luxi/Shuangjiang Forest for a total consideration of approximately RMB385 million which has been fully settled.

In July 2008, we acquired the Yunnan Wenshan Forest for a present value total consideration of RMB551.6 million. As at the Latest Practicable Date, approximately RMB[508.29] million has been paid for this acquisition and the unpaid balance plus interests accrued thereon of approximately RMB[103.41] million will be fully settled by 31 December 2009 with the Group's internal resources. On 1 September 2008, we entered into a non-binding credit facility agreement with Shenzhen Development Bank which has agreed, in principle, to grant us a credit line of RMB1,000 million for 3 years until 1 September 2011, subject to conclusion of credit facilities agreement(s). 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.

The terms of these acquisitions were negotiated on an arm's length basis and the consideration for each of these acquisitions was determined with reference to the then prevailing price. As advised by our PRC legal advisers, the forest right transfer agreements entered by us for acquisition of our forests, are valid, binding and enforceable, and Kunming Ultra Big has legally obtained the forestry right certificates, and the rights thereof have been legally registered and will be protected by the PRC laws.

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The table below shows the changes of our forest resources by area up to the Latest Practicable Date.

Period	Area of forest acquired during the period (hectares)	Our total forest area at the end of the period (hectares)
2003	267	267
2004	916	1,183
2005	737	1,920
2006	2,683	4,603
2007	7,850	12,453
2008	159,333	171,780 ¹
2009 (up to the Latest Practicable Date) ..	0	171,780

Note 1: Approximately 6 hectares in Anhui province were sold to an Independent Third Party on 2 April 2008.

As part of the Reorganisation, on 19 March 2008 and 17 April 2008, Kunming Ultra Big entered into a forestry right transfer agreement and a supplemental agreement respectively with Beijing Zhaolin. Pursuant to the said agreements, Beijing Zhaolin transferred all its forestry rights in Sichuan forests to Kunming Ultra Big for a consideration of RMB122,428,723 which was determined on arm's length negotiation and after having taken into account the valuation report issued by a PRC certified assets valuer in March 2008. The consideration was settled in May 2008. Prior to this transfer, Beijing Zhaolin had paid, in full, the consideration due from it in respect of the forests acquired.

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The following table sets forth details of the forests we acquired before 31 December 2007.

	Forest location	Area (hectares) (Note 1)	Forest stock volume (m³) (Note 2)	Issue date of forestry right certificate (Note 3)	Expiry date of forestry right certificate	Term of forestry right certificate (years)	Date of acquisition agreement (Note 4)	Purchase price (RMB) (Note 4)
Sichuan Forests								
1	Xiao gou 6 zu, Gaoshan village, Maoping, E'bian,	80	9,501	25 March 2008	23 April 2016	8	July 2003	599,500
2	Watuo village, Bapu, Meigu,	187	32,077	25 March 2008	30 September 2036	28	August 2003	1,121,600
3	Watuo village, Bapu, Meigu,	88	11,537	25 March 2008	30 September 2036	28	May 2004	528,000
4	Yingxin village, Heping Yizu xiang, Jin He Kou district, Leshan,	17	3,965	24 March 2008	23 October 2021	13	July 2004	130,624
5	Liaogongwa zu, Qunli village, Yiping xiang, E'bian,	45	6,190	25 March 2008	1 September 2034	26	August 2004	354,640
6	Wannian village, Shizi xiang, Yingjing, Ya'an,	104	9,262	24 March 2008	30 December 2032	24	October 2004	795,600
7	Taiping village, Honghua xiang, E'bian,	145	15,453	25 March 2008	30 November 2036	28	December 2004	1,111,800
8	Dagang village, Jinhe zhen, Jinhekou district, Leshan,	511	70,886	24 March 2008	25 December 2036	28	December 2004	3,679,680
9	Jifeng village, Jinhe zhen, Jinhekou district, Leshan,	333	36,679	24 March 2008	9 July 2036	28	July 2005	2,400,000
10	Wannian village, Shizi xiang, Yingjing, Ya'an,	65	2,564	24 March 2008	30 August 2036	28	August 2005	509,600
11	Sale village, Bapu zhen, Meigu,	338	48,887	24 March 2008	27 November 2036	28	November 2005	4,008,460
12	Gaoshan village, Maoping zhen, E'bian,	150	21,385	25 March 2008	20 January 2036	28	January 2006	1,909,440
13	Wannian village, Longcanggou xiang, Yingjing, Ya'an,	143	17,530	24 March 2008	27 February 2036	28	February 2006	1,827,500
14	Taiping village, Honghua xiang, E'bian,	137	30,474	25 March 2008	27 February 2036	28	February 2006	1,742,500
15	Waluo village, Baiyang xiang, E'bian,	107	24,931	25 March 2008	27 March 2036	28	March 2006	1,370,200
16	Wannian village, Longcanggou xiang, Yingjing, Ya'an,	104	23,938	24 March 2008	30 April 2036	28	March 2006	1,326,000
17	Xiangbi village, Gong'an xiang, Jinkouhe,	100	22,815	24 March 2008	30 April 2036	28	April 2006	1,320,000
18	Meizikan village, Yanfeng xiang, Mabian,	69	16,248	24 March 2008	30 April 2036	28	April 2006	900,640
19	Qunli village, Yiping xiang, E'bian,	69	15,715	25 March 2008	27 May 2036	28	May 2006	897,870
20	Qunli village, Yiping xiang, E'bian,	833	133,947	25 March 2008	27 September 2036	28	September 2006	11,375,000
21	Jifeng village, Jinhe zhen, Jinhekou district, Leshan,	970	175,566	24 March 2008	29 October 2036	28	October 2006	13,240,500
22	Meizikan village, Yanfeng xiang, Mabian,	600	74,166	24 March 2008	29 January 2037	29	January 2007	8,550,000
23	Xiangbi village, Gong'an xiang, Jinkouhe,	779	115,613	24 March 2008	12 March 2037	29	March 2007	11,131,993
24	Wannian village, Longcanggou xiang, Yingjing, Ya'an,	2,333	437,850	24 March 2008	17 July 2037	29	July 2007	34,125,000
25	Yingxin village, Heping Yizu xiang, Jinhekou district, Leshan,	2,667	582,313	24 March 2008	22 August 2037	29	August 2007	39,200,000
26	Qunli village, Yipingxiang, E'bian,	1,386	227,304	25 March 2008	21 October 2037	29	October 2007	20,787,400
27	Heping village, Xinjian xiang, Yingjing.	85	3,825	24 March 2008	31 March 2072	64	October 2007	1,272,600
Total		12,447	2,170,621					166,216,147
Anhui Forest								
28	Daba zu, Youfang Village, Shahezhen (Note 5)	6	1,806	10 October 2006	11 July 2032	26	September 2004	48,400
Total		6	1,806					48,400
All total		12,453	2,172,427					166,264,547

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Notes:

- (1) The areas of the individual forests in Sichuan have been rounded to integers, and therefore their sum is slightly different from the total figure of 12,447 as set out in the row of subtotal.
- (2) The forest stock volume was assessed as at 30 June 2009.
- (3) On 19 March 2008 and 17 April 2008, Kunming Ultra Big entered into a forestry right transfer agreement and a supplemental agreement respectively with Beijing Zhaolin, pursuant to which Beijing Zhaolin transferred all its forestry rights in Sichuan forests to Kunming Ultra Big. Consequently, new forestry right certificates were issued to Kunming Ultra Big on 24 and 25 March 2008. For the Anhui forest, it was disposed by Beijing Zhaolin directly to an Independent Third Party on 2 April 2008, and its forestry right certificate before the disposal was dated 10 October 2006.
- (4) These are the date of acquisition agreement and purchase price in respect of the acquisition of forests by Beijing Zhaolin from Independent Third Parties.
- (5) Due to the low quality of the wood contained in this forest and our strategy to focus our operations on Yunnan and Sichuan forests, on 2 April 2008, we sold this forest in Anhui to an Independent Third Party.

The following table sets forth details of the Yunnan Luxi/Shuangjiang Forest we acquired in the first half of 2008.

	<u>Forest location</u>	<u>Area (hectares)</u>	<u>Forest stock volume (m³) (Note 6)</u>	<u>Issue date of forestry right certificate</u>	<u>Expiry date of forestry right certificate</u>	<u>Term of forestry right certificate (years)</u>	<u>Date of acquisition agreement</u>	<u>Contractual purchase price (RMB)</u>
	Yunnan Forests							
	Shuangjiang, Lin Cang City							
1	Mangan Shuangjiang county	8,667	1,607,240	21 March 2008	12 April 2038	30	March 2008	52,000,000
	Luxi, De Hong Zhou							
2	Mangxuan village, Mengyang xiang, Luxi county	13,333	3,116,218	27 March 2008	11 April 2038	30	March 2008	86,000,000
3	Gongling village, Zhefang xiang, Luxi County	101	27,168	26 March 2008	13 March 2038	30	March 2008	699,752
4	Bangdian village, Santaishan xiang, Luxi county	6,000	1,433,190	25 March 2008	16 March 2038	30	March 2008	39,600,000
5	Pingliangzi village, Fengping zhen, Luxi county	6,000	1,452,171	25 March 2008	17 March 2038	30	March 2008	39,600,000
6	Wandan village, Wuchalu xiang, Luxi County	6,000	1,459,378	25 March 2008	18 March 2038	30	March 2008	40,500,000
7	Dazhupo village, Zhongshan xiang, Luxi County	9,504	2,272,323	28 March 2008	20 March 2038	30	March 2008	61,299,768
8	Dazhupo village, Zhongshan xiang, Luxi County	1,840	445,216	18 March 2008	9 April 2038	30	March 2008	11,868,000
9	Gongling village, Zhefang xiang, Luxi County	585	146,214	24 March 2008	10 March 2038	30	March 2008	3,860,824
10	Wandan village, Wuchalu xiang, Luxi county	1,247	314,085	21 March 2008	13 March 2038	30	March 2008	8,415,000
11	Gongling village, Zhefang xiang, Luxi County	56	15,313	24 March 2008	10 March 2038	30	March 2008	389,436
12	Gongling village, Zhefang xiang, Luxi County	6,000	1,452,910	28 March 2008	19 March 2038	30	March 2008	40,500,000
	Total	59,333	13,741,426					384,732,780

Note (6): The forest stock volume was assessed as at 30 June 2009.

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The following table sets forth details of the Yunnan Wenshan Forest we acquired in the second half of 2008.

	Forest location	Area (hectares)	Forest stock volume (m ³) (Note 7)	Issue date of forestry right certificate	Expiry date of forestry right certificate	Term of forestry right certificate (years)	Date of acquisition agreement	Contractual purchase price (RMB)
	Yunnan Forests							
1	Ma Guan	34,667	6,949,399	30 July 2008	22 July 2038	30	July 2008	208,000,000
2	Ma Li Po	23,333	3,919,944	30 July 2008	22 July 2038	30	July 2008	147,000,000
3	Xi Chou	16,667	3,683,407	31 July 2008	23 July 2038	30	July 2008	102,500,000
4	Fu Ning	14,667	3,388,077	1 August 2008	24 July 2038	30	July 2008	90,200,000
5	Yan Shan	10,667	1,685,386	31 July 2008	23 July 2038	30	July 2008	64,000,000
	Total	100,000	19,626,213					611,700,000

Note (7): The forest stock volume was assessed as at 30 June 2009.

The following table sets forth details of the movement of forest stock volume by forest:

Sichuan

m ³	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
Beginning	478,585	1,151,390	3,373,962	2,212,267
Acquisition	724,785	2,334,331	—	—
Harvested	(75,909)	(169,329)	(179,728)	(116,000)
Growth	23,929	57,570	169,033	74,534
Revision in yield	—	—	(1,151,000)*	—
Ending	1,151,390	3,373,962	2,212,267	2,170,801

* Yield estimate has been reduced from 3,907,000 m³ to 2,756,000 m³.

Yunnan Luxi

m ³	Year ended 31 December	Six months ended 30 June
	2008	2009
Beginning	—	13,815,025
Acquisition	17,691,822	—
Harvested	(340,200)	(240,730)
Growth	334,403	167,131
Revision in yield	(3,871,000)*	—
Ending	13,815,025	13,741,426

* Yield estimate has been reduced from 16,945,000 m³ to 13,074,000 m³.

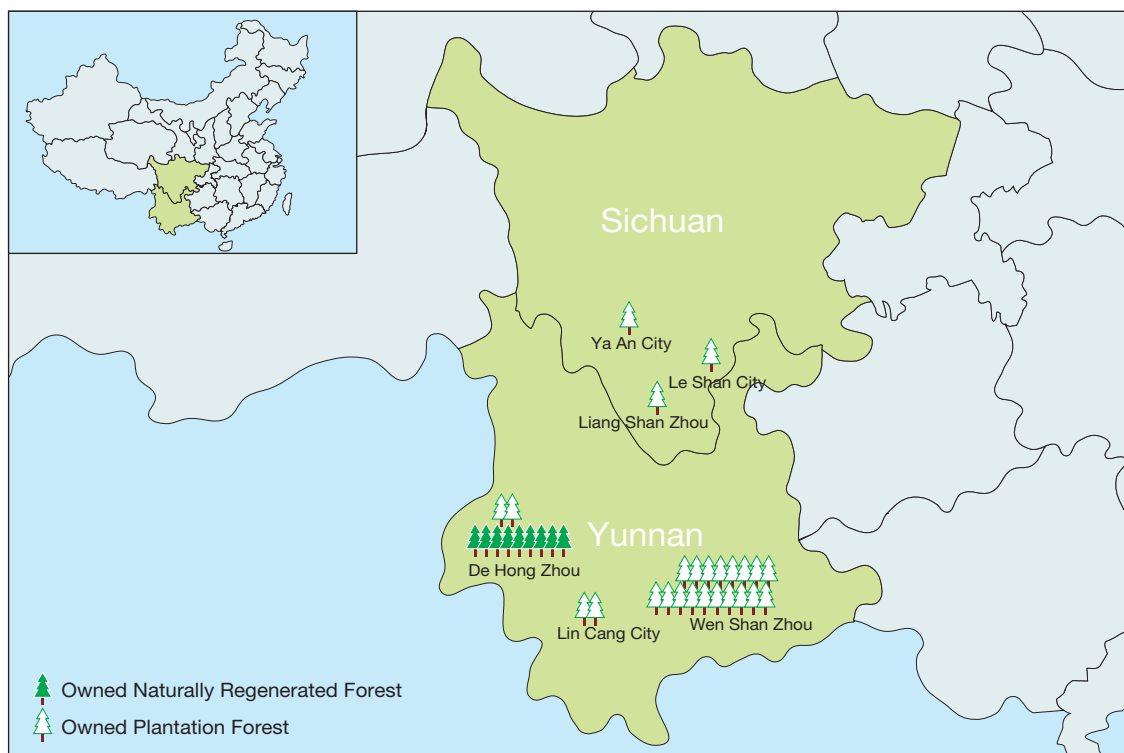
Yunnan Wenshan

m ³	Year ended 31 December	Six months ended 30 June
	2008	2009
Beginning	—	19,476,211
Acquisition	19,176,208	—
Harvested	—	—
Growth	300,003	150,002
Ending	19,476,211	19,626,213

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Location of our forestry resources

The following map illustrates the locations of our forests. Currently all of our forests are located in Yunnan Province (in Lin Cang City, De Hong Zhou and Wen Shan Zhou) and Sichuan Province (in Ya An City, Le Shan City and Liang Shan Zhou).



Forests in Sichuan Province

Our forests in Sichuan Province are all plantation forests. As at the Latest Practicable Date, they covered a gross area of approximately 12,447 hectares. Approximately 96% of such area is planted with Chinese fir (*Cunninghamia lanceolata*), and the remaining area is covered with a mixture of species including cedar (*Cryptomeria japonica*), Yunnan pine (*Pinus yunnanensis*), birch (*Betula spp.*) and alder (*Alnus glutinosa*). Chinese fir is a softwood tree and their logs are commercially and widely used for making wood panels, plywood, furniture and pulp.

Our Sichuan forests are situated in 3 main centres — Ya An City, Le Shan City and Liang Shan Zhou, and located on steep terrain. According to CFK, the average slope of the forests is estimated to be about 40 degrees. The altitude ranges from about 800 m above sea level to about 3000 m above sea level for the forests in the more mountainous regions. Such altitude range is within the range considered to be suitable for growing Chinese fir, but growth rates are likely to be lower at the higher elevations above 1200 m.

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The following table sets forth the distribution of our Sichuan forest by age class and tree species.

Age class (years) as at 31 December 2008	Fir	Fir Cedar Birch Mix	Pine Alder Mix	Area (hectares)
25	—	80	187	267
24	760	62	88	910
23	737	—	—	737
22	2,683	—	—	2,683
21	7,765	85	—	7,850
Total	11,945	227	275	12,447

All our forests in Sichuan are at least 20 years old and were already immediately harvestable when they were acquired by us. As at 30 June 2009, our Sichuan forests possessed an aggregate forest stock volume of approximately 2.2 million m³, and as at 31 December 2008, were valued at RMB1,067 million by CFK, our independent forestry valuer, in compliance with IAS 41.

Forests in Yunnan Province

Currently our forests in Yunnan Province are situated in 3 main centres — Shuangjiang of Lin Cang City, Luxi of De Hong Zhou and Wen Shan Zhou. The forest in Shuangjiang and Wen Shan Zhou consists entirely of plantation forests, and the forest in Luxi consists of approximately 80% naturally regenerated forest and approximately 20% plantation forests by area. As at the Latest Practicable Date, our Yunnan forests covered a gross area of approximately 159,333 hectares. Based on an assessment as at 30 June 2009, our Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest possessed a forest stock volume of approximately 13.7 million m³ and 19.6 million m³ respectively. According to the valuation by CFK, our independent forestry valuer, in compliance with IAS 41, our Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest were valued at RMB4,466 million and RMB2,114 million respectively, as at 31 December 2008. Over 90% of the trees in our forests in Yunnan Province are around 18-60 years old and immediately harvestable.

The main species of trees in our Yunnan forests is Chinese Fir (*Cunninghamia lanceolata*), occupying approximately 69.1% of the area. Birch (*Betula alnoides*), beech (*Fagus spp.*), and Yunnan Pine (*Pinus yunnanensis*) make up the balance which represent approximately 19.1%, 6.4% and 5.4% of the area respectively. Both Chinese Fir and Yunnan Pine are softwood trees. Their logs are commercially and widely used for making wood panels, plywood, furniture and pulp. Our other tree species, birch and beech, are hardwood trees. Since they generally have better wood properties than softwood trees, they are generally more expensive than the softwood trees. Logs from birch and beech trees are used to produce a variety of solid wood products such as wood panels, furniture, flooring and construction materials.

Our Yunnan forests are located on moderately steep terrain. According to CFK, the altitude ranges from about 50 m above sea level to about 2000 m above sea level for the forests in the more mountainous regions. Such altitude range is within the range considered to be suitable for growing birch, beech, Chinese Fir and Yunnan Pine which are present in our Yunnan forests, but their growth rates are likely to be lower at higher elevations of above 1200 m.

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The following table sets forth the distribution of tree species and age class of our owned Yunnan forests.

<u>Location</u>	<u>Species</u>	<u>Age class (years) as at 31 December 2008</u>	<u>Area (hectares)</u>
Yunnan Luxi/ Shuangjiang Forest			
Shuangjiang, Lin Cang City	Yunnan Pine	42-61	5,781
		32-41	1,586
		20-31	1,014
		0-22	286
Sub-total			8,667
Luxi, De Hong Zhou ...	Birch	26	21,280
		0-26	9,120
	Beech	26	7,093
		0-26	3,040
	Chinese Fir	26	7,093
		0-26	3,040
Sub-total			50,666
Total			59,333
Yunnan Wenshan Forest			
Wen Shan Zhou	Chinese Fir	17-22	100,000
Total			100,000

Forest in Anhui Province

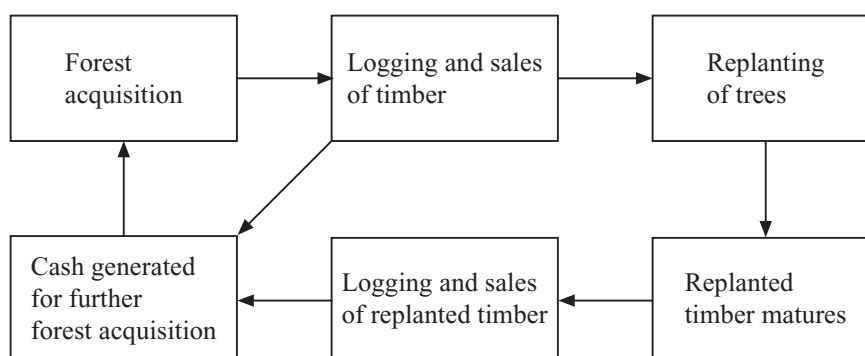
During the Track Record Period, we owned a small plantation forest in Anhui Province, which occupied approximately 6 hectares, but no logging had been performed in and no contribution of sales and revenue were derived from this forest. Due to the low quality of the wood contained in such forest and our current strategy to focus our operations on forests in Yunnan and Sichuan and other productive forests which we may acquire in future, on 2 April 2008, we disposed of this forest to an Independent Third Party at a consideration of RMB74,800 which was negotiated at arm's length and determined with reference to the local prevailing price. The disposal would represent a gain of approximately RMB26,400, being the difference between the acquisition cost we paid in September 2004 and the consideration we received on the disposal in April 2008.

OUR SUSTAINABLE FORESTRY MANAGEMENT

We are a socially responsible and environmentally friendly company. We are committed to the sustainable development of forest resources. The cash generated from our operations are used for acquisition of forest resources which after being harvested are regenerated by our plantation of new trees.

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The diagram below sets forth the flow of our sustainable development of forest resources:



Forest acquisition

All our forests were acquired directly from forest owners who are Independent Third Parties. The transferors were the villagers (individuals), the villages (rural collective economic organisations) or a company who owned the relevant (i) forest land or land use right; and (ii) the forest. Before entering into forest land/trees transfer agreements, our dedicated forest team will be primarily responsible for the initial assessment of potential forests for our acquisition. They will visit and inspect the target forest and measure, record or calculate the number of trees, the forest stock volume, the stem length, the stem height, tree species, tree age, altitude, location, area, nature of forest, tree spacing, etc. If the forest verification report prepared by our dedicated forest team after such visit and the small parcel survey report (or, if not available, the sampling survey report) obtained from the relevant local forestry bureau which contains details of forest prepared by the government are substantially consistent, we will engage an independent forestry valuer to issue a valuation report for that forest. Otherwise, our dedicated forest team will revisit the forest and verify the forest data again. Our management will then assess the conclusions of all these reports. If all of them are substantially consistent and that forest has met our acquisition criteria, we will negotiate in with the intended transferor on the final terms and conditions in order to enter into a definitive forest land/trees transfer agreement.

Our acquisition criteria include the following:

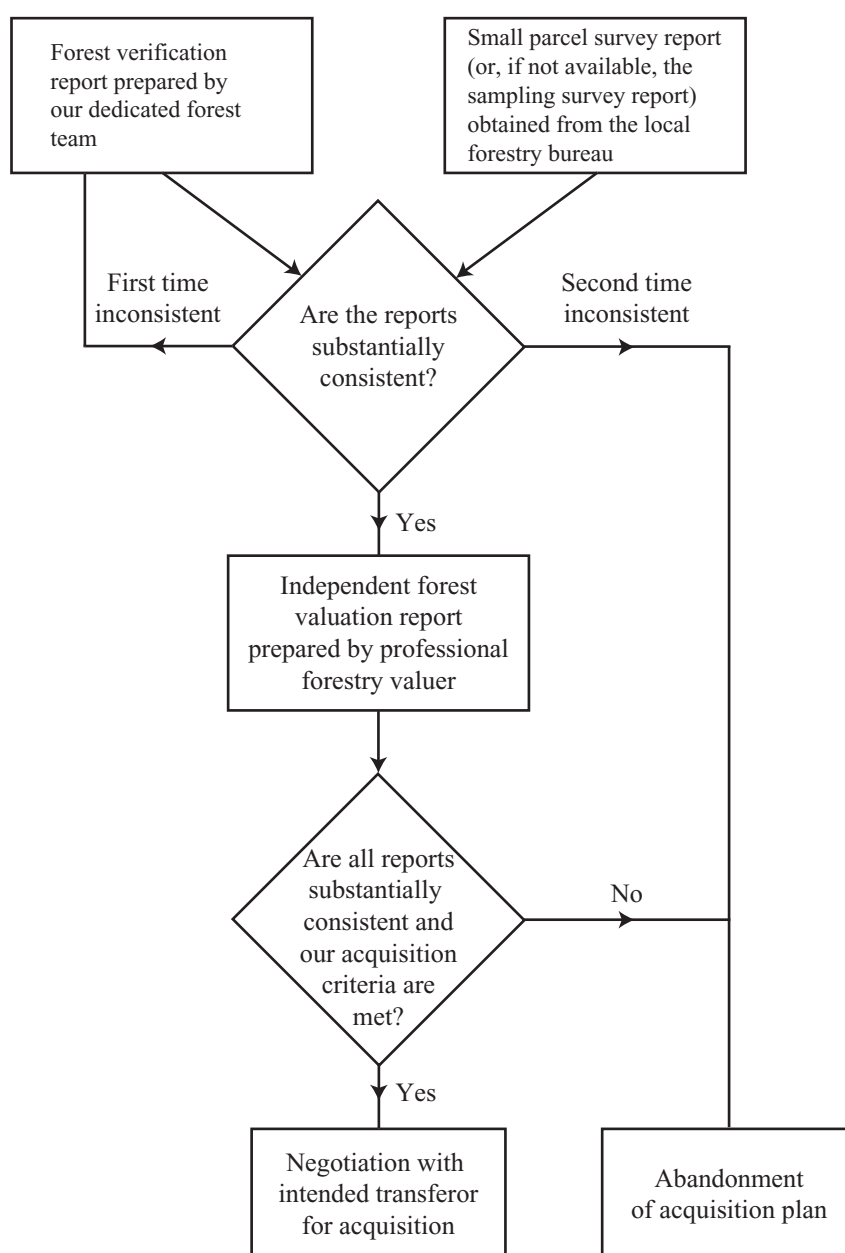
- (1) there must not be less than 110 trees per mu (that is, 1,650 trees per hectare);
- (2) the trees must have an average diameter of not less than 14 cm (measured 1.3 m above ground level);
- (3) the forest stock volume based upon the government survey must be not less than 225 m³ per hectare;
- (4) the forestry right ownership must be clear; and
- (5) the forest must be easily accessible.

For each of our Sichuan forests, PRC forestry valuers were engaged to issue a valuation report before each forest acquisition. The relevant engagement agreements set out, among other things, the scope of valuation, the time the valuation report is required to be issued, the date of valuation and the amount of service fee which is due on delivery of the valuation

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report. The PRC forestry valuers inspected the forest and prepared their valuation report according to PRC valuation principles. For our Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest, we had engaged CFK to issue valuation reports. The relevant engagement agreement sets out, among other things, the scope of valuation, the time the valuation report is required to be issued and the amount of service fee. CFK inspected our forests in Sichuan and Yunnan on various occasions in 2008 and in March and August 2009 and prepared the valuation reports in compliance with IAS 41. Apart from the valuation reports for our forests in Sichuan and Yunnan, we also engaged CFK to issue an independent technical report on our forestry operations which is set out in Appendix V to this document. The total fee payable to CFK in relation to these engagements is US\$[●]. The terms of all the aforesaid engagement agreements were negotiated on an arm's length basis.

The diagram below sets forth the flow of our process of acquisition of forests.



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As the plantation forests had been planted by villagers in response to a governmental afforestation initiative, and were essentially left untended until purchased by us, we normally do not have to conduct further silviculture until felling except that the seedlings will require weed control in the first year. Furthermore, we have established a set of rules to ensure that the trees are protected from pests and disease. For more details, please refer to the section "Business — Our Sustainable Forestry Management — Forestry Management" below.

Acquisition of Sichuan forests

Between 2003 and 2007, we acquired a total area of approximately 12,447 hectares of forests in Sichuan, all of which are plantation forests. For each acquisition of plantation forests in Sichuan province, we have entered into a forest land/trees transfer agreement with the relevant owner of the plantation forest who agreed to transfer the plantation forest to us and we would have the right to receive benefits from, to deal with, and to operate and manage the relevant plantation forest after such transfer. Under such agreement, the transferor represented and warranted that there must be not less than 110 trees per mu (that is, 1,650 trees per hectare), the trees must have an average diameter of not less than 14 cm (measured 1.3 m above ground level) and the forest stock volume must be not less than 225 m³ / hectare. Such warranty was intended to provide protection to us regarding the quality of the forest. As confirmed by our PRC legal advisers, these forest land/trees transfer agreements are valid, regardless whether the aforesaid warranty is breached or not. If we were satisfied with our due diligence on the conditions and the quality of the forest, we would complete the acquisition in accordance with the agreement. As at the Latest Practicable Date, we were not aware of any breach of such warranty by the transferors, and hence, did not make any relevant claim for compensation. In the event that breach of the warranty was found, the legal consequences for the breach will be determined under the PRC Contract Law.

All of our forests in Sichuan have been duly registered and have the relevant forestry right certificates. Our forestry right certificates for these forests have an average term of not less than 20 years. Approximately 99% of the area of our Sichuan forests have the expiry date of forestry right certificates falling in or after 2036. For more details of the term of our forestry right certificates, please refer to the section headed "Business — Our Forestry Assets — Overview".

For each of our forests in Sichuan, we own the forest trees, the rights to use the forest land and the rights to use the trees. Our rights are evidenced in the relevant forestry right certificates and are protected under the PRC Forestry Law. Pursuant to the PRC Forestry Law, all forest lands belong to either the State or the collectives. However, the trees, the rights to use the trees, and the rights to use the forest lands can be owned by individual entities. Our PRC legal advisers have confirmed that we have the right to sell the trees for these forests, apart from our right to use the forest land and our right to use the trees.

For the two financial years ended 31 December 2006 and 2007, we acquired plantation forests of approximately 2,683 hectares and 7,850 hectares respectively, all of which are located in Sichuan, and the amount paid for the acquisition was approximately RMB35,909,650 and RMB115,066,993 respectively. Since 1 January 2008, we have not acquired any forest in Sichuan.

Acquisition of Yunnan forests

In March 2008, we acquired the Yunnan Luxi/Shuangjiang Forest and this was our first forest acquisition in Yunnan. This forest has a total area of approximately 59,333 hectares, of

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which, approximately 8,667 hectares are located in Shuangjiang, Lin Cang City and the remaining approximately 50,666 hectares are in Luxi, De Hong Zhou.

In respect of the forests of approximately 8,667 hectares in Shuangjiang, Lin Cang City, we entered into a pre-purchase agreement on 12 December 2007 with an Independent Third Party to secure our exclusive right in acquiring these forests from it. Pursuant to this pre-purchase agreement, we paid RMB5 million as deposit to the intended seller, in return for its agreement not to transfer these forests to any other person. On 13 March, 8 April and 20 April 2008, we entered into a formal forest land / trees transfer agreement and supplemental agreements respectively with the same party. Pursuant to these agreements, we agreed to purchase these forests at a total consideration of RMB49 million. The amount of RMB5.1 million we paid earlier was treated as our first instalment payment for the total purchase price. The second instalment of approximately RMB10 million was settled in March 2008, and the remaining balance of approximately RMB33.9 million was settled in March 2009. On 21 March 2008, we obtained the forestry right certificate in our own name for these forests.

In respect of the forests of approximately 50,666 hectares in Luxi, De Hong Zhou, we entered into formal forest land / trees transfer agreements and supplemental agreements with Independent Third Parties for acquiring these forests. The total purchase price for these forests was RMB313,537,511. Pursuant to these transfer agreements, we paid the first instalment of approximately RMB32.7 million, equivalent to 10.4% of the total purchase price, in June 2008. The second instalment of RMB64.2 million, equivalent to approximately 20.5% of the total purchase price, was paid during the third quarter of 2008, and the remaining balance of RMB216.7 million, equivalent to approximately 69.1% of the total purchase price, was paid by March 2009. In March 2008, we obtained all the relevant forestry right certificates in our own name for these forests. For details of the issue dates of these forestry right certificates, please refer to the section headed "Business — Our Forestry Assets — Overview" in this document.

On 23, 24 and 25 July 2008, we entered into forest land / trees transfer agreements with Independent Third Parties to acquire the Yunnan Wenshan Forest, which is located in Wen Shan Zhou, Yunnan and has an area of approximately 100,000 hectares. We have completed due diligence on the conditions and quality of these forests through our dedicated forest team, and will engage a professional party to verify our due diligence results. The total purchase price is RMB551.6 million. Pursuant to these transfer agreements, we paid the first instalment of 11% of the total purchase price within one month from the date of the agreements. The second instalment of 30.8% of the total purchase price was paid within six months after our dedicated forest team completed their due diligence. The balance of 58.2% of the total purchase price, that is RMB321.05 million, will be payable within six months after that professional party completed its verification of our due diligence results. On 30 and 31 July and 1 August 2008, we obtained all the relevant forestry right certificates in our name for this forest. As at the Latest Practicable Date, unpaid consideration of Yunnan Wenshan forest amounted to approximately RMB[103.41] million of which will be settled with the Group's internal resources.

In each of the above forest land / trees transfer agreements, the transferor agreed to transfer the forest to us and we would have the right to receive benefits from, to deal with, and to operate and manage the relevant forest after such transfer. Under such agreement, the transferor represented and warranted that there must be not less than 110 trees per mu (that

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is, 1,650 trees per hectare) and the trees must have an average diameter of not less than 14 cm (measured 1.3 m above ground level) and the forest stock must be not less than 225 m³ / hectare. Such warranties were intended to provide protection to us regarding the quality of the forest. Our PRC legal advisers advised that the warranties under these forest land/trees transfer agreement will not expire until these agreements expire or are terminated. Our PRC legal advisers further confirmed that these forest land/trees transfer agreements are valid, regardless any of whether the aforesaid warranties is breached or not. If we are satisfied with our due diligence on the conditions and quality of the forest, we will complete the acquisition in accordance with the agreements. As at the Latest Practicable Date, we did not find any breach of such warranty by the transferors, and hence, did not make any relevant claim for compensation. In the event there is any breach of the warranty, the legal consequences for the breach will be determined under the PRC Contract Law. However, unless otherwise prescribed by law, the civil claims to a people's court are generally subject to the 2 years of limitation period for instigating an action under PRC law.

The terms of all the above-mentioned agreements were determined after arm's length negotiations.

For all our Yunnan forests, we have obtained the relevant forestry right certificates and own the trees, the rights to use the forest land and the rights to use the trees. Although the purchase price of the Yunnan Wenshan Forest has not yet been paid in full, we currently are the registered owner of the forest rights to this forest and may use its resources as needed. Our rights in both the Yunnan Luxi/Shuangjiang Forest and the Wenshan Forest will expire in 2038. For details of the term of our forestry right certificates, please refer to the section headed "Business — Our Forestry Assets — Overview" to this document.

Being one of the first privately-owned enterprises to take advantage of the PRC government's No. 9 Policy in 2003 which set out the directive for the private sector to participate in China's forestry development, the Group has developed extensive local forestry and management expertise in the Chinese market. The Directors are of the view that although the Group had no previous experience in operating forests in Yunnan Province prior to the acquisition of these forests, the senior management of the Group possesses sufficient experience and knowledge in managing forests in China, including in Yunnan. As set out in the paragraphs under the section headed "Business - Future Plans - Further strengthen our overall management and information system" of this document, we intend to further improve our business management and operations to cope with our rapid expansion, by recruiting experienced talent in the forestry industry, engaging forestry consulting firms as well as recruiting qualified graduates from Beijing Forestry University to work for us. Therefore, we do not believe that the acquisition of the Yunnan forests will have any material adverse effect on the management resources or financial resources of the Group. As at 31 August 2009, our confirmed but unperformed sales order of Yunnan logs for the year 2009 amounted to not less than approximately [191,440] m³. The Directors are of the view that the acquisition of the Yunnan forests will have a positive effect on the financials results of our Group.

After acquiring the forests from the villages/villagers, we have offered such villagers the opportunity to work for us as forest workers on daily forestry maintenance work.

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Forestry management

Our management formulates our environmental protection policies and measures and oversees their implementation, and our dedicated forest team and resources management department implement such measures. Our dedicated forest team is separate from our resources management department which manages our forest workers. The reports of tree growth and changes in tree conditions prepared by our forest workers are subject to verification and approval by our dedicated forest team. Each dedicated forest team member is responsible for verifying the reports prepared by, on average, 6 to 8 forestry workers.

We have established a resources management department which is principally responsible for the maintenance and monitoring of our forests and the management and supervision of our forest workers. We also have a dedicated forest team which regularly visits our forests to monitor our forest workers and the conditions of our forests. Our forest workers who are stationed in our forests also regularly inspect our forests and report to our resources management department to ensure continuing compliance with forestry regulations. We also provide regular training to our forest workers on forest conservation and compliance with forestry regulations. As at 30 June 2009, there were 46 people in our forest management team and we had 317 forest workers. As at 30 June 2009, approximately 20% of our dedicated forest team members had received formal school education in forestry, all of them have received forestry training provided by us and approximately 57% have been engaged in the forestry business for over 5 years.

To record and monitor the health and growth of our trees, we have established a recording system. Each day, our forest workers inspect the forest of which they are responsible for taking care. 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 of changes in condition of the trees to our resources management department, setting out details of our trees and forests, such as location, area, 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 survived after replanting and any finding of fire, pest and illegal logging. We have provided training to our forest workers, including teaching them what information needs to be collected, the method of collecting such data and how to fill up the forms of report, on a regular basis. Accordingly regardless of their education levels, our forest workers are sufficiently competent to complete the forms of report. The reports prepared by our forest workers are subject to the verification and approval by our dedicated forest team, which will also inspect the forests quarterly, or monthly if necessary. Each dedicated forest team member is responsible for verifying the reports prepared by, on average, 8 forestry workers.

We use a stratified random sampling method for calculation of our forest resources. Under a stratified random sampling, a population of trees will be divided into different strata and the population in each stratum consists of homogeneous trees in terms of species and age, but each stratum contains trees which are significantly different in terms of tree species and age from the other stratum. Then, samples from each stratum will be taken to obtain a representative sampling. Although our forests are located in different places, a forest can be divided into a certain number of forest zones or strata with trees which are different in planting time and/or species. When a batch of trees in a forest zone or stratum has the same planting

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time and species, the quality of the trees in that forest zone can be regarded as very similar, and therefore trees in that forest zone can be regarded as homogenous and form a stratum. When we conduct sampling, we will collect samples from different forest zones, or strata so that a representative sample of our forest can be obtained.

Our forest is generally divided into 5 to 15 forest zones, depending on the area of such forest. The larger the area of the forest, the more zones such forest is divided into. Each quarter, our forest workers will generally take 20 to 50 tree samples from each forest zone with an average sample size of 400 trees in each piece of forest, and submit a report to our resources management department. For forests with large area, a sample size of over 2,000 trees will be collected by our forest workers. Thus, for the quarterly reports prepared by our forest workers in the first quarter of 2008, approximately 10,000 tree samples from approximately 1,400 mu (equivalent to 93.3 hectares) were taken from our 28 pieces of forest in Sichuan. The number of trees per hectare depends on the individual area but on average, there are approximately 110 trees per mu (that is, 1,650 trees per hectare).

At the end of each year, we also engage an independent forestry valuer to conduct valuation for all our forests.

The PRC forestry valuers employed by us during the Track Record Period were Yunnan Hua Yi Assets Valuation Co., Ltd. (雲南華益資產評估有限公司), Yunnan Hua Yi Jing Cheng Assets Valuation Co., Ltd. (雲南華益精誠資產評估有限公司) and Beijing Asia Accounting Firm Co., Ltd. (北京亞洲會計事務所有限公司). All of them are certified PRC assets valuer and provide service of assets valuation. We understand that each of them has experience in forestry assets valuation of about 5 years, 2 years and 5 years respectively.

Our recording and reporting system for monitoring our forests and operations involves verification by our dedicated forest team and cross-checking against the independent valuation report issued at the end of each year. We have never found any major discrepancies between our records of forestry assets and those of the independent valuation reports, and hence, our Directors consider that our recording and reporting system is adequate.

We recognise the importance of sustainable forest management practices to ensure the long-term supply of our forest resources. We have implemented and will continue to implement various practices that embrace and adopt sustainable forest management.

To minimise the environmental impact on our forests, we assess the forest and select trees for logging according to the growth condition of the trees. For example, we only harvest those trees which have met our harvesting standards, which are trees:

- having a stem diameter greater than 20 cm;
- having a stem length not less than 15 m; and
- aged at least 20 years.

The yield from the forests depends on a variety of factors, including:

- the quality of planting seedlings;

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- the soil and climate conditions;
- the topography of the land;
- the planting density and spacing between trees; and
- the quality of the management of the forest.

Our overall management objective is to manage our forests on a sustainable basis, which means that the volume of timber harvested over time will not generally exceed the volume of wood growth over the same period. We believe this will maintain and enhance the long-term health of our forests, which in turn should help ensure sustainable harvests.

We also arrange our logistics operations in such a way to minimise the environmental impact. Currently our forests are generally close to roads or routes leading to the main roads. Thus we do not need to construct new roads connecting our forests to the main roads. Furthermore, we do not require heavy machines to transport our timber downhill. Instead, we make use of the natural landscape such as a nearby river or the slope of a hill to transport timber, and in necessary cases we will build cables for transport use. As such, the environmental impact from our operations is minimised.

To maintain our forests in good condition, we have established a set of procedures for pest control and fire prevention.

The procedures for control of pests include the following:

- our forest workers must regularly inspect the forests under their care, record any pests found, make suggestions for pests control, and follow the directions on pests control from the local forestry bureau;
- before introducing any new plants to our forests, testing of such plants must be made to prevent pest attack;
- we must avoid using chemical pesticides in pests control; and
- when our forest workers discover any pests, they need to report to our resources management department and the local forestry bureau immediately.

The rules for fire prevention include the following:

- our forest workers form fire-prevention teams;
- the fire-prevention team identifies high risk periods due to dry conditions and during such periods the setting of any fire in the forests is prohibited or strictly controlled;
- cooking, smoking and lighting fires in forests are prohibited except in specified places and fire extinguishing equipment should be made available; and
- when our forest workers discover a fire in the forest, they need to report to the local fire service department, our resources management department and the local forestry bureau immediately.

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Our local forest workers who are supervised by the dedicated forest team, regularly visits our forests to monitor and report the conditions of our forest and to ensure regulatory compliance and compliance with our procedures for pest control and fire prevention.

In addition, to cope with the expansion of our forestry operation, we intend to recruit more people to monitor and maintain our forests. As at 31 December 2007, we had 198 forest workers and 33 forest management team members. During the year ended 31 December 2008 and in view of our acquisition of the Yunnan Luxi/Shuangjiang Forest in March 2008 and the Yunnan Wenshan Forest in July 2008, we hired 120 additional forest workers and 13 additional forest management team members. As at 30 June 2009, we had 317 forest workers and 46 forest management team members. As at 30 June 2009, approximately 20% of our forest management team members had received formal school education in forestry, all of them have received forestry training provided by us and approximately 57% have been engaged in the forestry business for over 5 years.

Since we commenced our forestry operation in 2003, we have been implementing the sustainable management measures mentioned in the section headed "Business — Our Sustainable Forestry Management" (including the various measures to minimise the possible impact to the environment as set out above) and have not experienced any environmental problems or noticed any material adverse consequences to our forests and the environment due to our operation. Accordingly, as at the Latest Practicable Date, our Directors are of the view that it is unlikely that we would be subject to liabilities based on any past non-compliance under current PRC environmental laws and regulations that we have not disclosed, which would have a material adverse effect on our business, financial condition or results of operation.

Harvesting

All our forests can be commercially harvested in accordance with the relevant laws and regulations as they are classified as timber stands under the functional categorisation of forest by the SFA. Although the PRC laws and regulations do not specify the age of the trees which are not allowed to be logged, it is provided that logging of saplings (which refer to trees with the diameter of less than 5cm) is prohibited.

Harvesting plan

We harvest and sell logs to our customers. To ensure the quality of our products and the sustainability of our forest resources, we have established a set of harvesting rules and standards. Our harvesting rules require strict compliance with the logging permits and the relevant harvesting regulations as required by the PRC Forestry Law and the relevant government regulations. We only harvest those trees which meet our harvesting standards, which are trees:

- having a stem diameter greater than 20 cm;
- having a stem length not less than 15 m; and
- being at least 20 years old.

We engage the villages for harvesting in Sichuan forests and professional harvesting teams for harvesting in Yunnan forests. Our forest workers and dedicated forest team

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members monitor the activity of harvesting on site and record details of plantation assets (such as the date and volume of logging) upon logging to make sure the trees we harvested have met our harvesting standards.

Harvesting activities

Upon receiving an order from our customers, we will select an appropriate forest close to our customers and apply for logging permits from the relevant local forestry bureau specifically for that order. For more details of logging permit, please refer to the sub-section headed "Permits and quotas" below.

Forests are divided into small parcels by their different locations. Given that (i) the average area of a Sichuan forest parcel is much smaller than that of a Yunnan forest parcel; and (ii) the logging condition of a Sichuan forest parcel is generally simpler than that of a Yunnan forest parcel as the former is closer to roads, rivers or slopes, thereby making the terrain easier for logging, the operational scale and the complexity of logging will be greater for a Yunnan forest parcel than a Sichuan forest parcel. Accordingly, we engage the villages close to the forests (who are ordinary farmers) to provide a simple harvesting service in a smaller area in Sichuan, and engage the professional harvesting teams (which are engaged in the business of provision of harvesting services and better equipped and more efficient in harvesting) for harvesting in a greater area in Yunnan.

For our forests in Sichuan, we engage the villages, which are close to the relevant forest where harvesting is to be performed, for harvesting and enter into a framework harvesting agreement ("Sichuan Harvesting Agreement") with the relevant village committees (on behalf of those villages). Those villages are Independent Third Parties consisting of people who are ordinary farmers with the necessary skills and equipment for harvesting logs in forests, and our PRC legal advisers have confirmed that they have the authority to enter into the Sichuan Harvesting Agreement with us. As advised by our PRC legal advisers, according to the PRC Organic Law of the Village Committees, the village committee shall be composed of three to seven members, including the chairman, the vice-chairman and the members, all of which are elected directly by the villagers. The village committee shall, among other things, manage the public affairs of the village, and administer the affairs concerning the land and other property owned collectively by the villagers of the village in accordance with the provisions of laws.

The Sichuan Harvesting Agreement provides for the general rights and obligations of the contracting parties such as (i) our rights to own the logs after harvesting, devise the harvesting plans and our obligations to apply for and obtain the relevant logging permits and (ii) the village's right to receive a harvesting fee from us (to be agreed from time to time) and their obligations include harvesting trees in accordance with our instructions. Before each harvesting, we will issue a written confirmation to the villages which will set out the specific terms of harvesting service, including the time, volume, location of the logging and the harvesting fee. The harvesting fee is negotiated with such villages on an arm's length basis with reference to the market conditions at that time. We settled the harvesting fee to the engaged villages (through their village committees) in cash after the logging job is completed. The Sichuan Harvesting Agreement does not provide for an expiry date. During the Track Record Period, there has been no disputes between the villages and us regarding the Sichuan Harvesting Agreement. In the event the villages fail to provide the services to us in accordance with the Sichuan Harvesting Agreement, we will first try to resolve the dispute by amicable negotiation with the relevant village, and if the negotiation fails, we will then consider to take legal action to claim for damages based on breach of contract.

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For our Yunnan forests, we engage professional harvesting teams, who are Independent Third Parties, for harvesting. The professional team which is currently engaged by us is a private enterprise in Yunnan which provides harvesting services. It is equipped with necessary tools for logging, such as saws, chain saws, cranes for lifting timber, interlocking skidder for forest harvesting and logs peeling machines. If the forest location makes the harvesting difficult, it may set up the cableways and chutes to facilitate transport of timber. To the best of our knowledge, it has been operating for about three years and its customers are primarily forestry operators in Yunnan. We believe this professional harvesting company has the necessary skills, resources and experience for harvesting for us. We have entered into a framework harvesting agreement ("Yunnan Harvesting Agreement") with this harvesting company in substantially the same terms as the Sichuan Harvesting Agreement except for the payment terms. Pursuant to the Yunnan Harvesting Agreement, the harvesting fee will be payable in three instalments: (1) 20% of the total harvesting fee is payable within 10 working days after we have issued a written confirmation to the harvesting company which sets out the specific terms of harvesting service; (2) 40% of the total harvesting fee is payable after completing half of the harvesting volume required; and (3) the remaining balance of 40% is payable upon completing of all the harvesting volume required.

According to the Sichuan Harvesting Agreement and the Yunnan Harvesting Agreement, the villages or the professional harvesting teams are required to comply with the national forestry harvesting safety rules and regulations, and are responsible for equipping themselves for logging when performing such services. Apart from the harvesting fee, we are not responsible for any costs incurred by the villages or the professional harvesting teams during the logging process.

We have taken the following measures to monitor our harvesting activities and the quality of our harvest:-

- (a) all harvesting activities with a harvesting plan must be approved in advance by our chief administration officer;
- (b) all harvesting people must strictly follow our harvesting rules and standards; and
- (c) in the process of harvesting, our forest workers and the members of our dedicated forest team will be on site to monitor the logging and record details of harvesting (including the date, area and location of logging, and the volume of timber harvested), to ensure the quantity of timber logged does not exceed that specified in the logging permit, and the harvesting complies with other requirements as set out in the logging permit and our own harvesting requirements including the quality of the harvest.

The timber, after harvesting, will then be processed into log lengths, primarily 2 m and 4 m in length and our customer will pick up their logs. The turnaround time from customer order to contacting customer for log pickup is typically one week.

For each of the four financial years ended 31 December 2009, we harvested timber at a rate of approximately 10.0%, 7.6%, 1.5% and 2.0% respectively (harvesting rate for 2009 is developed by annualising harvested volume for six months ended 30 June 2009), in terms of proportion of wood volume harvested during the year to total forest stock volume at the end of

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that year. Our harvesting rate is much lower than the 10% maximum harvesting rate currently allowed by Sichuan and Yunnan forestry bureaus because we set our harvesting rate at such level to ensure the quality of our timber which are harvested from selected trees reaching our specified stem diameter and stem length. Another reason for our relatively lower harvesting rate is that there is a time lapse between forest acquisition and logging, and some forests which are acquired during a specific year are not harvested during that year. Despite that we are capable of achieving a 10% harvesting rate without prejudicing the sustainability of our forests, it is our general policy to take into account the quality of our timber.

We review our harvesting rate each year and determine it after taking into account our forest reserve, the growth cycle of different species of trees, the impact to the sustainability of forests, the allowable logging amount and the appropriateness of logging for specific forests (including their accessibility). At any time of a year, we will not harvest trees more than once on the same spot.

For each of the financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our log sales, in terms of log volume, amounted to 76,200 m³, 169,800 m³, 520,407 m³ and 321,930 m³ respectively.

Permits and quotas

Under the PRC Forestry Law, the PRC government strictly implements a quota system for logging of forest wood so as to uphold the overriding principle that the amount of consumption of timber must be less than the amount of its growth. Details of the logging quota system is set out in the section headed "Regulatory Overview" of this document.

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

In light of the position of the local forestry bureaus, our internal guidelines provide that our annual maximum logging amount should account for 10% of our total forest stock volume. Upon receiving an order from our customers, our resources management department will check (i) whether the aforesaid 10% annual logging cap utilised up to that moment; and (ii) the volume of logs in the order as compared to the un-utilised logging cap, to ensure our compliance with the anticipated annual logging cap. Furthermore, the relevant logging activities with a harvesting plan must be approved in advance by our chief administration officer. After selecting the appropriate forest for logging, we will apply for the logging permit with the local forestry bureau. In addition to the application form, we are also required to present the relevant forestry right certificates to the local forestry bureau for inspection when we apply for a logging permit.

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In practice, the PRC government controls our Group's logging amount through the use of logging permit. A logging permit must be obtained from the local forestry bureau of the PRC government at the county or higher level for each logging and logging activities must be conducted in accordance with the requirements of the logging permit.

Based on our experience, it usually takes about a week to obtain a logging permit. When the local forestry bureau issues a logging permit to us, it will specify in the permit, among other things, the period of time, the maximum area or number of trees permitted for logging. As at the Latest Practicable Date, we have not experienced any rejection of our application for logging permits.

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

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

Note:

For each of the three years ended 31 December 2008 and the six months ended 30 June 2009, the actual log sales were 76,200 m³, 169,800 m³, 520,407 m³ and 321,930 m³ respectively.

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

Our Directors confirmed that we followed our internal guideline for 10% annual logging cap and complied with the logging permits during the Track Record Period. Our PRC legal advisers advised that given that: (a) we have obtained logging permits before each time of logging; and (b) the relevant local forestry bureaus in Sichuan and Yunnan have confirmed that our logging activities were in compliance with the relevant rules and regulations, our logging activities during the Track Record Period were in compliance with the applicable PRC laws and regulations in all material respects.

Our forest workers prepare reports on the conditions of the forests and maintain the records of logging activities. Such reports and records will be verified and approved by our dedicated forest team before being accepted by our resources management department for record.

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Forest maintenance fee

When applying for the logging permits, we are also required to pay a Forest Maintenance Fee which is contributed to a forest maintenance fund established by the PRC government and the rate of the Forest Maintenance Fee is determined by local forestry bureau (currently this rate is set at RMB55 per m³ by the Sichuan forestry bureau and RMB45 per m³ by the Yunnan forestry bureau). The Forest Maintenance Fee paid or payable by us during each of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 was RMB4.1 million, RMB9.3 million, RMB25.2 million and RMB15.3 million respectively, and as at the Latest Practicable Date, they [have been] fully settled in cash.

Replanting

To ensure the sustainability of our forests, we plant new trees to replace the ones that we cut down. We have established a set of rules for replanting, including the following:

- the replanting must comply with the PRC Forestry Law and the relevant regulations;
- the replanting must be conducted during or after the year of harvesting; and
- the survival rate in the year of planting must be not less than 85% and the survival rate after 3 years of planting must be not less than 80%.

In our Sichuan forests, we usually replant seedlings between March and April, which according to our experience, is the optimum season for planting seedlings. In Yunnan, we replant seedlings throughout the year as the season for planting seedlings is all year round. We will select, within the same piece of forest where trees have been harvested, the suitable replanting areas which can provide enough space and light for the growth of seedlings. The trees we replant are of the same species as those we harvest. After planting seedlings, we will monitor their growth and do grooming when needed.

All the seedlings we use are provided by the government for free. The seedlings first planted by the villagers, before we acquired the relevant forests, were also provided by the government for free. We apply for seedlings from the local forestry bureau about one or two months before replanting (which means, in Sichuan, in January or February). The local forestry bureau has maintained records of our harvesting activities and by reference to these records, they will determine whether to approve the amount of seedlings applied for. After we have obtained the approval of the amount of seedlings, which according to our experience, will usually takes about a week, we will collect the seedlings from the designated locations. We will then organise the replanting. We understand that the local forestry bureaus will keep records of our application for seedlings and the amount of seedlings granted to us.

According to the PRC Forestry Law, new trees are required to be planted when trees are cut and the number of or the area covered by new trees must not be less than the one for felled trees. As part of our commitment to sustainable forest management, we exceed this minimum legal requirement by replanting trees in our forests at the rate of at least 110% (that is, for every 100 trees we cut, we will replant at least 110 new trees within a year after the month of actual logging). For each of the three financial years ended 31 December 2006, 2007 and 2008, our replanting rate was approximately 115%, 112% and 112% respectively.

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Furthermore, the PRC governmental regulations require the survival rate of seedlings in the year of planting to be not less than 85% and the government authorities regularly visit forests to check the survival rate of seedlings. As part of our commitment to sustainable forestry management, we have outperformed the minimum legal requirement by having achieved an average of at least [90]% survival rate in the year of planting.

The PRC government will examine our replanting activities annually and will issue a written confirmation after examination and investigation. According to the annual written confirmations issued by the competent forest authorities in Sichuan [and Yunnan], our replanting activities, in our Sichuan forests during the period from 2004 to 2008, and [in our Yunnan Luxi/Shuangjiang Forest in 2008], were in compliance with the relevant laws.

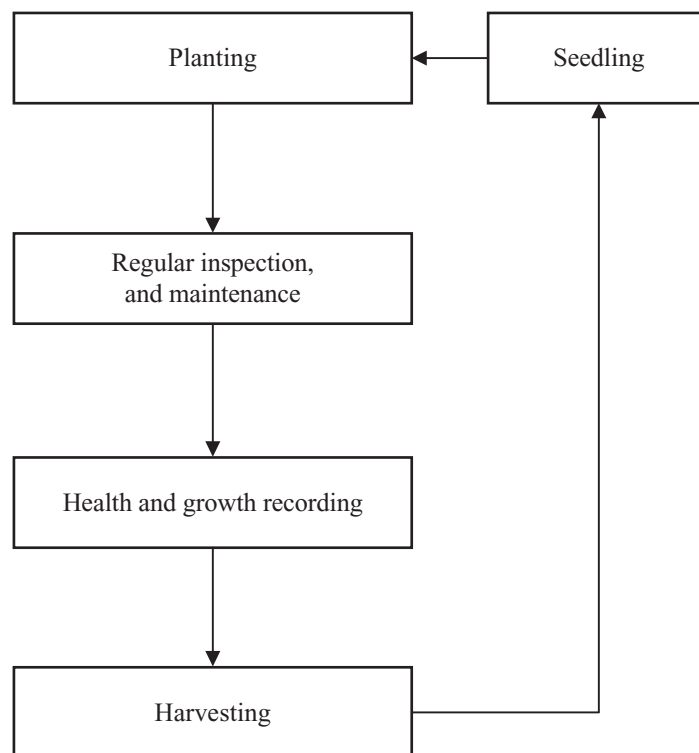
To optimise the yields on our planted trees, we engage in a variety of plantation management practices as follows:

- choice of the site for planting trees, which usually is close to the place of logging to ensure trees are properly spaced;
- planting at optimal times of the year with proper spacing to enhance the survival rate;
- taking measures of fire prevention and pests control (please refer to the section headed “Business — Sustainable forestry management — forestry management” for more details); and
- monitoring the plantation sites daily by our forest workers and quarterly by our dedicated forest team.

The above practices are designed to produce fast growing, high quality sustainable forestry resources, optimise yields, improve resistance to disease and fire, enhance environmental conservation, and increase harvesting efficiency.

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The diagram below sets forth our plantation management process:



Relationship with local forest workers

Some of our forests were owned and planted by local farmers prior to their acquisition by our Group. Upon acquisition, we invite these farmers, who are Independent Third Parties, to join our Group as forest workers in exchange for a monthly stipend. Based on the Group's understanding and knowledge of the forestry in China and as confirmed by CCPEF, we believe that such arrangement is unique in the forestry industry in China. To the best of our knowledge, there are two types of arrangements with forest workers in the market which are different from our practice. One practice is that after acquisition of a forest from the forest farmers, the forestry company will have no more relationship with these forest farmers, and they will engage other people other than these forest farmers to maintain the forest. The other practice is that the forestry company invites the forest farmers to use their forestry rights as their contribution to the forestry company and they will then receive dividends as a shareholder of the forestry company.

As our forest worker, the farmer, in addition to his own farming activities, is responsible for taking care of our forests and keeping a detailed record for the growth of our trees and the conditions of our forests. These farmers have strong experience in tree planting and harvesting which enable us to maintain the stability and quality of our operations.

We provide the farmers with a stable and regular income and enhance their living standards. We pay monthly salary to these forest farmers and their salary is determined with reference to the prevailing remuneration level at the local labour market. Since June 2008, we commenced making contribution to the social insurance fund for our forest workers in compliance with the relevant PRC laws. Prior to that, we had agreed with them that they would use part of their salary to make these contribution on their own and we had included the

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amount of contribution in their salary. However, as our PRC legal advisers have advised that this arrangement breached the PRC labour laws and regulations, since June 2008, we and these forest workers have entered into new labour contracts which comply with the new PRC Labour Contract Law and the PRC labour laws and regulations. The new labour contracts provide, among other things, that we shall fully pay the social insurance contributions which include the basic pension, basic medical insurance, unemployment insurance, work injury insurance and the birth insurance, for the employees in compliance with the national and local social insurance laws and regulations in the PRC. As advised by our PRC legal advisers, other than its obligation to make contribution to the social insurance and housing fund for its employees, in PRC, the Group does not have any social responsibilities within the local communities as imposed by the local governments and/or stipulated by the relevant laws and regulations.

We believe that our policy of paying local farmers as forest workers has won us the reputation of being socially responsible within the local communities and the local governments and has made us more competitive in our acquisition of new forests.

OUR OPERATIONS

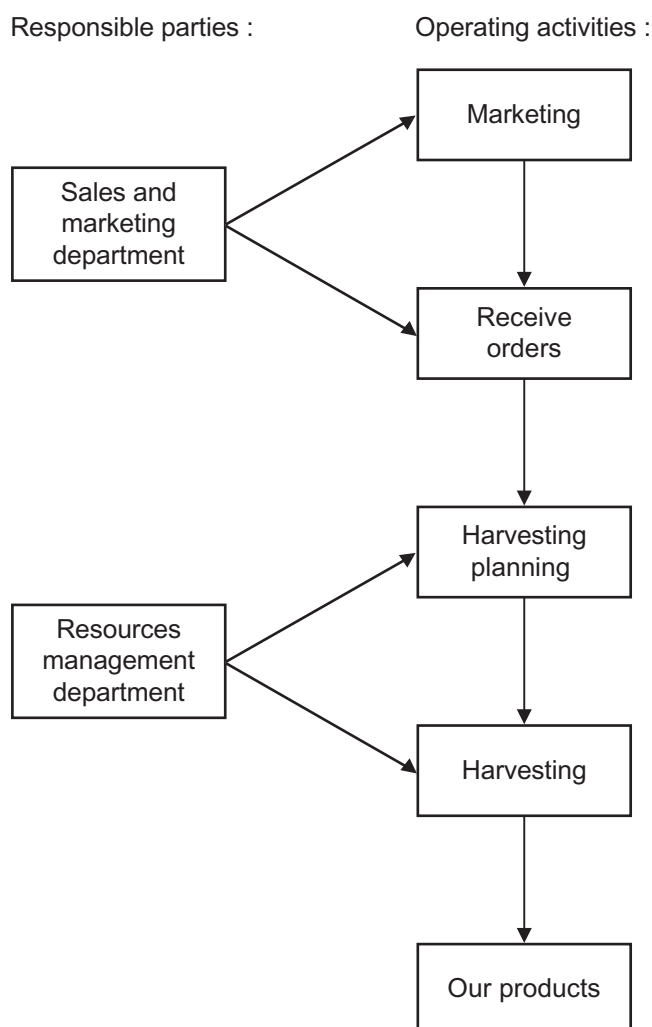
Overview

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

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

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The following diagram shows a summary of our operations.



Sales and marketing

We sell logs produced from our forests. All our products are sold direct to our customers in China. The sales activity is controlled by our national sales manager as supported by our sales team. Our sales department is located in Beijing but our sales team travel frequently to our forests.

All of our revenue came from our sales of logs during the Track Record Period. During the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our revenue amounted to approximately RMB70.1 million, RMB160.3 million, RMB544.9 million and RMB373.2 million respectively.

For the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the sales of Chinese fir logs accounted for approximately 94.5%, 96.6%, 33.9% and 22.6% of our total revenue. The balance of our revenue came from the log sales of Yunnan pine, beech and birch. Sales of Chinese fir logs [decreased] as a percentage of total sales when we began operating our Yunnan Luxi/Shuangjiang Forest in May 2008. This

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forest includes Yunnan pine, beech and birch in addition to Chinese fir. Below is the breakdown of our sales volume and revenue by log species for the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009.

	Year ended 31 December									6 months ended 30 June 2009		
	2006			2007			2008					
	Volume (m ³)	Revenue amount (RMB)	% of total revenue	Volume (m ³)	Revenue amount (RMB)	% of total revenue	Volume (m ³)	Revenue amount (RMB)	% of total revenue	Volume (m ³)	Revenue amount (RMB)	% of total revenue
Chinese												
fir logs	72,100	66,277,885	94.52%	164,100	154,929,807	96.6%	208,207	184,827,178	33.9%	98,700	84,212,039	22.6%
Yunnan pine												
logs	4,100	3,844,712	5.48%	5,700	5,388,462	3.4%	36,000	30,953,208	5.7%	120,400	17,112,233	4.6%
beech logs . .	—	—	—	—	—	—	115,000	131,165,094	24.1%	88,330	113,407,864	30.4%
birch logs . . .	—	—	—	—	—	—	161,200	198,002,264	36.3%	114,500	158,515,777	42.4%
Total:	76,200	70,122,597	100%	169,800	160,318,269	100%	520,407	544,947,744	100%	321,930	373,247,913	100.0%

As at 31 August 2009, our confirmed but unperformed sales orders of Sichuan and Yunnan logs for the year 2009 were approximately [34,800] m³ and approximately [156,640] m³ respectively. Such unperformed sales orders are expected to be performed and delivered by 31 December 2009. We will continue our efforts to broaden and diversify our customer base by looking for sales to large wood-processing factories through our sales team or introduction by our business partners.

For each sale, we enter into a timber sales agreement with our customer. However, for our long-term customers, each year we enter into a master timber sales agreement with them setting out the annual sales volume of timber for the next year, the volume for each time of delivery and in some cases, also the base price (which may be adjusted subsequently after parties' negotiation). The master timber sales agreement also provides for the quality of the logs (i.e. with stem diameter of 20 cm), the delivery point, the obligation of the purchaser to transport the logs from the delivery point, the term of payment (i.e. payment before delivery) and the consequences for breach of contract. If we are unable to deliver the products on time, we have to pay to the customer a compensation calculated on the basis of 0.03% of the product value for each day overdue, up to 30% of the total product value. If the customer is unable to make payment on time, it has to pay to us a compensation calculated on the basis of 0.3% of the product value for each day overdue. The price of our logs, if not set out in the master timber sales agreement, will be notified to these customers in our subsequent written notification. Before each delivery, we issue a delivery note to our customers confirming the amount of our delivery and the price of our logs. Payment for our products is made before delivery. We do not have goods return policy. There are a total of 3, 6, 17 and 17 customers for the 3 years ended 31 December 2008 and six months ended 30 June 2009 which have signed such yearly master timber sales agreement with the Group, the sales of which accounted for 86.60%, 92.90%, 99.84% and 100% of the turnover of the Group during the same period.

As at 30 June 2009, we had a sales force of 15 people. We deploy a direct sales strategy to develop our customer base. The main responsibility of our sales and marketing team is to closely monitor market development, provide after-sales services (which refer to our follow-up service with our customers after sale, such as getting feedback from our customers on the quality of our products and their future requirements and orders) and other promotional work. Our sales team regularly visits our customers to promote our products and maintain a close relationship with our customers. We closely study the forestry markets in China and have a thorough understanding of our customers' needs and the timber market in China. Through our efforts, we have a well established customer base. We plan to continue to enlarge our

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customer base by way of (1) referral by existing customer as we have established a reputation among the peers; (2) exploring new and potential customers through the approach of potential customers by our sale and marketing staff; and (3) self introduction of customers in newly acquired forest after we have established reputation in the area. While we are committed to continue to serve our existing customers with our high quality products and good customer service, we will capture every opportunity to expand our clientele.

Pricing

We determine the selling prices for sales of logs with reference to the following factors:

- perceived market trends;
- market price levels;
- the sales volume;
- required delivery schedules; and
- our relationship with the specific customer.

For the two years ended 31 December 2007, we only sold logs of Chinese fir and Yunnan pine harvested in Sichuan. For the year ended 31 December 2008 and the six months ended 30 June 2009, in addition to Chinese fir and Yunnan pine, we also sold beech and birch, which we harvested in Yunnan, as we commenced logging operations there in May 2008. As at the Latest Practicable Date, Chinese fir, birch, beech, pine, and a mix of fir, cedar, birch, pine and alder, accounted for approximately 71.1%, 17.7%, 5.8%, 5.1% and 0.3% respectively of our total forest area. Our selling price of Chinese fir and Yunnan pine (including VAT) are substantially the same in the same market, and our selling price (including VAT) of beech and birch are approximately 30% and 40% higher than that of Chinese fir and Yunnan pine (including VAT), respectively. Furthermore, since June 2008, the difference between our selling prices of Chinese fir sold in Sichuan and those sold in Yunnan has been approximately 2%, with prices slightly higher in Sichuan in light of increased demand due to the Sichuan Earthquake on 12 May 2008. Because the Sichuan and Yunnan markets are geographically close to each other, we expect that the price difference of logs of same species in these two provinces, if any, will continue to be minimal in the near future. Accordingly, our Directors believe that the log price differentials in these two provinces will not materially affect our results of operations (excluding fair value changes).

Customers

Currently all of our logs are sold to customers in China. All of our customers are wood processing factories, which accounted for 100% of our customer base by turnover for the year ended 31 December 2008 and the six months ended 30 June 2009. They produce wood panels and wood-based products which are cut from logs. Their products are used for furniture making, flooring, house building and infrastructure. Some of such products are exported overseas. With our acquisition of approximately 159,333 hectares of forest in Yunnan in 2008, we have expanded our customer base to wood-processing factories in Yunnan, and have entered into master sales agreements with some of them.

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Below is the breakdown of our customer base by nature of their business.

<u>Business nature of our customers</u>	<u>% of total turnover</u>	
	<u>for the year ended 31 December 2008</u>	<u>for the 6 months ended 30 June 2009</u>
Wood processing factories	100%	100%
Others	—	—
Total:	<u>100%</u>	<u>100%</u>

The end-users of our logs fall into three main categories: (1) contractors who use our products for house building and infrastructure; (2) furniture makers; and (3) paper manufacturers.

Approximately [29.5]% and [18.6]% respectively of our customers by revenue for the year ended 31 December 2008 and the six months ended 30 June 2009 were located near our forests in Sichuan. The following table illustrates the geographical breakdown attributable to our revenue during the financial year ended 31 December 2008 and the six months ended 30 June 2009.

<u>Location of customers</u>	<u>% of total revenue</u>	
	<u>for the year ended 31 December 2008</u>	<u>for the 6 months ended 30 June 2009</u>
Sichuan	29.5%	18.6%
Yunnan	70.5%	81.4%
Total:	<u>100%</u>	<u>100%</u>

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, we had a total of 10, 16, 19 and 17 customers respectively, which had purchased and received our logs during these respective periods, and the five largest customers of our Group in aggregate accounted for approximately 93.9%, 85.3%, 44.8% and 56.2% respectively, of our Group's revenue. During the same period, our Group's largest customer in each respective period accounted for approximately 47.1%, 22.7%, 9.7% and 12.8% respectively, of our Group's revenue. Our five largest customers during 2006 and 2007 were purchasers of our logs harvested in Sichuan. For the year 2008 and the first half of 2009, our five largest customers were all located in Yunnan. We understand that, among our five largest customers during the Track Record Period, one is a trading company, and all the rest are wood-processing factories. Of these customers, six of them are located in Sichuan, six in Yunnan and one in Hangzhou. Each of them is an Independent Third Party. Our five largest customers first became our customers between [2003 and 2008]. To the best knowledge of our Directors, our five largest customers for the Track Record Period have operated for [6 to 8] years, their registered capital vary from RMB50,000 to RMB2,000,000, and their target customers are in construction and furniture-making industries, save for the aforesaid trading company which is engaged in trading business of various products (including timber). Furthermore, we are not aware of any relationship among these customers. We never encountered any customers who have imposed any certification and/or other specific requirements on our products other than the details of orders for timber nor any material delays in product delivery to our customers or defaults in payment by our customers.

The Directors are of the view that the demand for wood products in China exceeds and it is expected that it will continue to exceed their supply in the coming years, and therefore we

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will be able to easily find other customers to replace the five largest customers should they terminate their business relationship with us. As at the Latest Practicable Date, none of our Directors, their associates, or any Shareholders holding more than 5% of the issued share capital of our Company had any interest in any of our five largest customers for the three years ended 31 December 2008 and the six months ended 30 June 2009.

Transportation

Our customers are responsible for transporting our products from our forests to their ultimate destination.

According to the PRC Forestry Law, any entity which needs to transport the forest trees (except those forest trees which can only be removed by the State) out of the forest zones must apply for a timber transportation permit issued by the forestry department at the county level or above. According to the PRC Forestry Law and the Implementation Regulations of PRC Forestry Law, after the entity obtains the timber logging permit, the forestry bureaus shall issue a timber transportation permit to the entity for transporting the timber out of the forest zone. Our customers are responsible for applying for timber transportation permits and we will give them the relevant logging permits for processing. The local forestry bureau also sets up check points on the roads connecting the forested area to ensure all logging and transport out of the forested areas are legal.

Suppliers

We engage the village of the relevant forest and professional Independent Third Parties for harvesting our Sichuan and Yunnan forests respectively. As they are required to equip themselves, we do not supply any equipment or machinery. Therefore we do not have capital expenditure for equipment or machinery for harvesting. We also do not need trucks for transportation as our customers arrange the pick-up of timber from the roadsides near our forests. We do need seedlings for replanting but they are provided free by the PRC government. Therefore other than the professional harvesting companies engaged by the Group for harvesting services, we do not have suppliers for operating our forestry business, whether or not they are specific to our business or are required on a regular basis to enable us to continue to supply products to our customers.

The professional harvesting company in Yunnan was the only service provider we engaged during the Track Record Period. As at the Latest Practicable Date, none of our Directors, their associates, or any Shareholders holding more than 5% of the issued share capital of our Company had any interest in our only service provider for the three years ended 31 December 2008 and the six months ended 30 June 2009. Our Directors have confirmed that there is no contractual arrangement between our Group and the PRC government regarding the supply of tree saplings. Given that the planting of forest trees are encouraged by the PRC government, we do not consider that there is any risk regarding a shortage in the supply of tree saplings and/or seedlings for re-plantation.

INVENTORY CONTROL

As at 30 June 2009, we had log inventories of approximately RMB20.4 million. [This is higher than our average level of inventory at the end of a year as we harvest more logs in Sichuan during the second quarter in advance of the rainy season in Sichuan (which occurs in

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July through September), during which we cease logging in Sichuan.] Since timber will usually be taken away by our customers within 7 days from delivery day, we do not need warehouses to store timber for the long term, thereby reducing our warehouse costs.

We adopt inventory control that allows us to closely monitor the level of inventories of logs. Our resources management staff at the delivery point takes record of the amount of the logs delivered to the customer and another staff verifies the record. The logs inventory is recorded by species, grade and stem diameter. Our resources management department conducts inventory count at the end of each year and our finance department cross-checks the inventory count record against its accounts record. We prepare for the logs inventory according to the amount of our confirmed sales order, our expected sales in the coming months and our logging capacity. For example, we prepare more inventory from our Sichuan forests from April to June in anticipation of the rainy season of Sichuan which lasts from July to September each year, during which period we discontinue logging due to safety concerns.

QUALITY CONTROL

The Company is committed to providing high quality products. The Directors believe that product quality is vital in enhancing our competitiveness, market position and reputation.

Our quality control is divided into two phases:

Acquisition phase

Before we decide to purchase a forest, we will go through a strict procedure for assessment and selection. Our dedicated forest team will conduct on-site assessment of the potential forest. In the event the assessment is positive, an independent and external valuer will also be engaged for valuation. All valuation reports and assessment results will be taken into account, and all of our acquisition criteria must be met before we make a final decision on acquisition.

Operation phase

Our resources management department is principally responsible for the maintenance and monitoring of our forests as well as the management and supervision of our forest workers. We also have a dedicated forest team which regularly visits our forests to monitor our forest workers and forest conditions. Our forest workers who are stationed in our forests also regularly inspect our forests and report to our resources management department to ensure continuing compliance with forestry regulations. They are responsible for daily management and maintenance of our forests and are required to submit to our resources management department regular maintenance reports and special reports for any unusual events. At the end of each year, we also engage an independent professional valuer to assess and evaluate our forests and issue a valuation report to us.

COMPETITION

The Group's competition mainly comes from various market participants in the PRC. There are large forestry operators in the PRC, most of which are state-owned enterprises and possess a large amount of forest reserve. Although our forest reserve is relatively less than these state-owned enterprises, we have a forest acquisition system and an operation system in place and therefore our Directors believe that we can compete with and have an advantage

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over these state-owned enterprises in terms of efficiency and flexibility. Furthermore, given that the PRC government has different objectives in forestry management at a macro level and profit-making may not be the sole objective set by the state-owned forest operators, our Directors are of the view that competition from the state-owned forest operators may not be material to us.

Besides large forestry operators, there are also a number of smaller forest owners which are located in different provinces of China. As our current operation is focused in Sichuan and Yunnan, compared with the forest farmers in other provinces, we may be less competitive as compared to them when selling our logs to customers in other provinces as their transportation cost will be lower. We understand that there is no large scale forest operator in Sichuan province and the competition in Sichuan province is not keen and that in Yunnan province, the core business of the Group's competitors is paper manufacturing, and therefore there is relatively less competition among forestry operators. We understand that save for some timber import from Myanmar in Yunnan, there is only a small amount of import of timber in Sichuan and Yunnan.

Many forestry operators in China are focused on acquiring land to establish fast growing plantations of eucalyptus (for the pulp and paper industry), Chinese fir and pine. These companies have largely focused on the southern provinces such as Guangdong, Guangxi, Hainan Island, Shandong and Henan. However, as land suitable for plantation forests with reasonable price is becoming scarce, particularly in Guangxi and Guangdong provinces, it is likely that some of these locally and foreign owned pulp and paper companies will locate to other provinces to expand their forest base. This may drive up the cost of acquiring forest in the provinces where these companies are active.

The market for our products in the PRC is highly competitive in terms of price and quality. In addition, wood-based products are subject to increasing competition from a variety of substitutes, including non-wood and engineered wood-based products, as well as import competition from other worldwide suppliers.

We believe the principal barrier to acquiring a larger market share of the timber industry in China is the ability to secure high quality forests, forestry management know-how and the capital expenditure required to acquire forests and develop the infrastructure to carry out the harvesting operations. Throughout the years, we have developed the necessary expertise and understanding of practices at local, regional and national levels to acquire relatively large areas of forest land. We believe such expertise represents a key barrier to acquiring significant forest ownership in China and should give us a competitive edge against our competitors.

RESEARCH AND DEVELOPMENT

In connection with the expansion of our business operations, we plan to carry out research and development on sustainable forest management, tree improvement, breeding, growth monitoring and silvicultural operations. We have established good relationships with professional bodies in forestry industry such as the CCPEF and Beijing Forestry University. We will seek to cooperate with these professional bodies for our research and development.

On 2 April 2008, we entered into a cooperation memorandum with Beijing Forestry University regarding research and development and professional recruitment. We have agreed

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with Beijing Forestry University to jointly establish a research centre which will conduct research on the prediction and monitoring of the growth of trees planted in our forests, sustainable forestry management and other advanced forestry management technology and practices. We also plan to jointly establish a seedling centre to nurture seedlings and conduct research on nurturing and improvement of seedlings, and other technology for speeding up tree growth. The goal of our research and development efforts is to improve forest yields and tree quality.

REAL PROPERTIES

As at the Latest Practicable Date, our Group leased one property in Hong Kong and six properties in China — [three] in Yunnan, [two] in Sichuan, and [one] in Beijing. [Except one property in Yunnan which is used for staff quarters, all of these properties are for office use]. We also own the rights to use the forest land in our forests in Sichuan and Yunnan Provinces.

Leased properties without titles and registration

As at the Latest Practicable Date, we have leased [4] properties without titles and registration. Details of these properties are set out in Numbers [37], [39] and [41-42] in the section headed “Group III — Property interests rented by the Group” in Appendix IV to this document. The lessors of the relevant leases have not provided us with the relevant building ownership certificates or other relevant documents evidencing that the lessors have the requisite titles or rights to lease the properties to us and the relevant tenancy agreements have not been registered with the relevant PRC authorities. As advised by our PRC legal advisers, if the lessors do not have title to the properties, or the legal and unfettered rights to lease the properties to us, the validity of the tenancy agreements is uncertain under the PRC laws and regulations and therefore these tenancy agreements may be subject to challenge by third parties. As advised by our PRC legal advisers, we are entitled to claim loss and damages against the lessors for any loss and damages under such a circumstance. Our Directors believe that these properties are not crucial to our operation as we have the right to claim loss against the lessors and there is no difficulties to look for new offices to replace the existing leased properties.

Leased properties without registration

As at the Latest Practicable Date, we have leased [2] properties with titles but without registration. Details of these properties are set out in Numbers [38 and 40] in the section headed “Group III — Property interests rented by the Group” in Appendix IV to this document. As at the Latest Practicable Date, the lessors have obtained the relevant building title certificates, however, the tenancy agreements had not been registered with the relevant PRC authorities. As confirmed by our PRC legal advisers, the non-registration of the properties during the term of the tenancy would not affect the validity of the tenancy agreements. However, the tenancy agreements will not have priority over bona fide third parties who may exercise the right to take possession of the properties so long as the relevant tenancy agreements remain unregistered.

For all aforesaid leased properties without titles and/or registration (“Defective Properties”), they are currently occupied by us for staff quarters or office purposes and therefore are not crucial to our forestry business and operations. During the Track Record Period, no revenue and profit of the Group was contributed by the Defective Properties. As

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advised by our PRC legal advisers, because of the defects in the titles of the Defective Properties, we may be unable to use such Defective Properties freely or may be required to move out from the Defective Properties. Given that all of the Defective Properties are currently for staff quarters or office purposes and there is no limitation on the location of such offices, our Directors consider that as there are lots of alternative premises readily available for our use, they do not anticipate any difficulties in looking for new offices in case we are required to vacate from the Defective Properties. Therefore, other than finding alternative premises if necessary, no remedial actions would be taken by us. In case we need to relocate another premise, the estimated time for relocation will be less than one month and the estimated costs and loss of profits due to relocation will be not more than RMB100,000. Therefore, the relocation (if it happens) will not have any material adverse impact on our Group’s operation or profitability. The Controlling Shareholders have agreed to provide an indemnity to our Group in respect of the losses and damages arising from the properties with defective titles. We will, in the future, select the leases with title certificate of the properties and register the leases.

INTELLECTUAL PROPERTY

We have registered three trademarks, applied for the registration of four applied trademarks and registered two domain names in Hong Kong and the PRC. For details, please refer to the section headed “Further Information about our Business — Intellectual Property Rights of our Group” in Appendix VII to this document.

We understand from our PRC legal advisers that the time required for the registration of a trade mark in the PRC varies on a case-by-case basis. In the PRC, if the respective trademark office approved the marks for registration, the marks will then be advertised for 3 months for third parties to oppose our applications. Our PRC legal advisers advised that, in the PRC, sometimes it may take several years for the trademark office to review an application before it can proceed to advertisement. If no opposition is filed during the opposition period, our applications will then proceed to registration.

If we fail to register these trademarks in PRC we applied for, we will not be entitled to the exclusive use of these trademarks in the PRC (as the case may be), save for the costs to be incurred for re-printing of some corporate brochure, we do not expect our business would be materially or adversely affected or the Group’s sales would be affected since our sale of logs are not branded with our trademarks.

INSURANCE

It is our policy to maintain an insurance coverage on all our forests (including all newly acquired forests), subject to the terms and conditions of the insurance policies, for loss of trees arising from fire, hail, floods, snow, pests and theft. The term of our insurance policies is generally 1 or 4 years and the insurance premium is set by the insurance company after taking into account the log price changes and the biological growth. Therefore, although the value of our forest assets keeps changing, which is mainly due to acquisition of new forest, log price movements and biological growth of the existing forests, our Directors consider that the continual change in the value of the Group’s forest assets would not materially affect the adequacy of the Group’s insurance coverage.

As at the Latest Practicable Date, we were insured, under the insurance policies then in effect, in an amount of approximately RMB[9,025] million. Given that the forest is our

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important assets, we will, taking into account the insurance premiums and the possibility of risks to be covered under the insurance policy, regularly review the sufficiency of our insurance coverage.

For each of the three financial years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our Group paid an aggregate of approximately RMB3.0 million, RMB13.3 million, RMB15.9 million and RMB6.0 million, respectively, for insurance premiums. Given the nature of our operations and business, the value of our assets and turnover may exceed the amount of our insurance coverage. Therefore, our insurance coverage may not adequately protect us against certain risks. For details, please see the section headed "Risk Factors — Risks Relating to Our Business — Our insurance coverage may not adequately protect us against certain risks and this may have a material adverse effect on our business". However, considering the perceived risks and the cost of insurance premiums, our Directors believe that the current insurance coverage of our Group is reasonable for our industry and our size of operations.

We have not submitted any major claims to our insurers during the Track Record Period.

INTERNAL CONTROLS

We are committed to strict implementation of our policies on financial budgeting, financial reporting and internal control. Our Board have established an audit committee and a remuneration committee.

We have established an internal control system to review and monitor our financial budgeting and financial position. In preparing our annual financial budgeting, each department will prepare its own departmental budget in mid-December based on the actual data in the previous 12 months. Our finance department will consolidate all the departmental budgets. In early January, our management will review and approve the financial budget (if required, as modified by our management). Our chief executive officer will then issue the approved financial budget to each department. Our finance department will monitor and review the actual expenses with budget on quarterly basis. It will investigate if there is any significant discrepancy from the budget and issue a discrepancy report to our management for their discussion and follow-up. For our capital expenditure budget and capital project, our management will review the relevant feasibility report of the capital project and prepare the capital expenditures budget. All the capital expenditures budget and capital project will have to be approved by our Board.

Currently we have procedures of financial budgeting and internal controls in place which procedures are mainly manually operated with the assistance of simple application software. The Directors believe that in view of our simple business model and existing operation scale, our current internal controls and management information system are adequate for our operation, however, they can be further improved to enhance our efficiency and productivity, in particular, when our forest reserve continues to expand. Accordingly, we are in the process of upgrading our internal reporting controls and accounting and financial systems as part of our efforts to improve and strengthen our internal controls and management information systems. For example, we are improving our record keeping systems, improving processes and formalising certain procedures to coordinate recordkeeping among our various departments and subsidiaries, strengthening and formalising certain of our internal sales procedures and inventory management systems and making further enhancements to our procedures on

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information technology. These improvements will be achieved mainly by installing more advanced or specialised computer software and processing the records submitted by various departments by a central computer system.

As part of our efforts to improve its information management system, on 21 May 2008, we entered into an information management system development consulting agreement with a consulting company which is an Independent Third Party for the provision of information management system consulting service. In view of its recommendations, on 17 July 2008, we and Shanghai SVA Communication Co., Ltd. entered into ERP Implementation Project Service Agreement to implement the information management system. More details are set out in the section headed “Business — Future Plans — Further strengthen our overall management and information systems” of this document.

SAFETY

Our standard of occupational health and safety management was recognised by our award of the Authentication Certificate of Occupational Health and Safety Management System (GB/T28001-2001) issued by Beijing NGV Certification Centre, an approved accreditation body in China.

Since we engage Independent Third Parties to provide harvesting activities, our Directors consider that the risk of our staff experiencing industrial accident is relatively low. On the other hand, we currently make contribution to social insurance fund (which covers insurance for losses from occupational injuries) in accordance with the relevant PRC laws. Therefore our Directors are of the view that our current measures of occupational safety are adequate. As advised by our PRC legal advisers, other than the social insurance and housing fund, in PRC, we do not have any social responsibilities within the local communities as imposed by the local governments and/or stipulated by the relevant laws and regulations.

In respect of our engagement of the professional harvesting teams to undertake harvesting in Yunnan, our insurance policy taken out for our Yunnan forests covers third party liability and accident injuries. The new insurance policy we took out for our Sichuan forests also covers third party liability and accident injuries.

As at the Latest Practicable Date, we have not encountered any material operational problems such as industrial accidents, nor have we encountered any material interruptions to our business operations.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

We conduct our operations and carry out our business in material compliance with relevant PRC laws and regulations. Please see the section headed “Regulatory Overview” in this document for details regarding the laws and regulations that govern our operations. As advised by our PRC legal advisers, the Directors confirmed that Beijing Zhaolin had obtained all the necessary permits, certificates and licenses for its operations throughout the Track Record Period. Our PRC legal advisers have also advised us that as at the Latest Practicable Date, we have complied in all material respects with the relevant PRC laws and regulations for our two PRC subsidiaries, Kunming Ultra Big and Chengdu Yishang.

During the Track Record Period, Beijing Zhaolin was our predecessor entity. Our PRC counsel has advised that save for the failure to make certain social contributions and housing

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related contributions to some of its staff, Beijing Zhaolin has complied in all material respects with the relevant PRC laws and regulations. Furthermore, the liabilities of such failure will not be transferred to the Company, Kunming Ultra Big, Chengdu Yishang or any of our PRC subsidiaries. These staff were the forest workers of Beijing Zhaolin in Sichuan. At that time, Beijing Zhaolin had agreed with these forest workers that they would use part of their salaries to make these contributions on their own and Beijing Zhaolin would include the amount of contributions in their salaries. There was such arrangement because these contributions, even if made by Beijing Zhaolin, would be made in Beijing and its forest workers in Sichuan would not be able to benefit from these contributions.

Since June 2008, our other two PRC subsidiaries, Kunming Ultra Big and Chengdu Yishang, which were established in March 2008, have commenced making contribution to the social insurance fund for their staff in compliance with the PRC laws.

As at the Latest Practicable Date, Beijing Zhaolin has been dissolved and deregistered. Our PRC legal advisers have also advised that with such dissolution and deregistration, none of the liabilities of Beijing Zhaolin will be transferred to us. Therefore, Beijing Zhaolin's failure to make certain social contributions and housing related contributions to its staff will not have any legal implication to our Group nor affect our Group's operations and financial position.

Our PRC legal advisers have advised that we have obtained all necessary licenses and permits for the operation of our business and our operation has been in compliance with the PRC laws in all material aspects during the Track Record Period.

Our PRC legal advisers have confirmed that our Company and our Controlling Shareholders have complied with all the relevant rules and regulations imposed by the relevant PRC government authorities in respect of the Reorganisation in the PRC (namely, the incorporation of Kunming Ultra Big and Chengdu Yishang, and the transfer of Sichuan forestry rights from Beijing Zhaolin to Kunming Ultra Big) and all relevant approvals from the PRC government authorities have been obtained in respect of the aforesaid Reorganisation in the PRC.

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or administrative proceedings pending or threatening against us or any of our Directors that could have a material adverse effect on our financial condition or results of operation.

INFRINGEMENT OF OUR PREDECESSOR COMPANY'S NAME

There have been reports published on websites that Beijing Zhaolin, our predecessor company, was engaged in the trading of forestry rights ("Improper Activity") in Sichuan. We have never engaged in the Improper Activity or consented to the use of Beijing Zhaolin or its name for the Improper Activity. During the Track Record Period, Beijing Zhaolin was the owner of its forestry rights and had never held any of its forestry rights on behalf of any person. We came to be aware that an Independent Third Party ("Misuser"), who had previously proposed to establish some kind of business cooperation with Beijing Zhaolin around early 2006 (which had been subsequently refused by Beijing Zhaolin), had purported to offer such trading on behalf of Beijing Zhaolin in May 2006. The Misuser represented to others that she was engaged in trading of forestry rights on behalf of Beijing Zhaolin. This came to our attention about a week after we believe the Misuser commenced this Improper Activity and we,

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thereafter, immediately contacted the Misuser. She advised us that she had not yet carried out any actual trading of forestry rights since she started to make such representation to others and assured us she would discontinue the Improper Activity immediately. After receiving such assurances, we continue to monitor the matter and have neither come to be aware of continued Improper Activity nor had we been approached in this regard. We have also requested the relevant website operators to remove the inaccurate reports from their websites in July 2008 and published a clarification statement in the Chinese national newspapers on 9 July 2008.

Since the Improper Activity was terminated within about a week from the time we believe it commenced and the Misuser verbally confirmed that she had not carried out any actual trading of forestry rights during such period and had not received any benefit in respect of the Improper Activity, we considered that the risk of us being sued was low, and any further protection that we might receive by reporting the Improper Activity to the relevant government or seeking indemnity/compensation for any possible losses that could arise from such Improper Activity, was minimal, and hence, decided not to take any further action.

After investigation, it was found that the Misuser was associated with Zhengzhou Branch Office of Beijing Zhaolin as its person-in-charge, the entity alleged to be conducting the Improper Activities in the reports ("Unauthorised Branch"). Our PRC legal advisers have advised that it is the directors or shareholders of Beijing Zhaolin who have the power to approve the establishment of a branch office. In respect of the application for establishment of a branch office which must be submitted to the local administration and management bureau of industry and commerce in order to establish a branch office, under the relevant PRC laws and regulations, the legal representative is the only person who has the power to sign the application on behalf of a company.

Mr. Li Kwok Cheong, the legal representative of Beijing Zhaolin, has confirmed that (a) he has never represented Beijing Zhaolin to sign or approve the establishment of Zhengzhou branch office or any other branch offices of Beijing Zhaolin; (b) he has never authorised the Misuser or any other person to sign or approve the establishment of Zhengzhou branch office or any other branch offices of Beijing Zhaolin; (c) Beijing Zhaolin has never participated or entrusted any other person to participate in the Improper Activity; and (d) he has never indicated or consented to, or authorised, or otherwise in any form, appointed the Misuser as the agent of himself or Beijing Zhaolin. No evidence has been found that might indicate that Mr. Li Kwok Cheong's involvement in the establishment of the Unauthorised Branch. Furthermore, based on the internet search of records at the website of the Zhengzhou administration and management bureau of industry and commerce, the business licence of the Unauthorised Branch was revoked in February 2008.

Our PRC legal advisers have advised that, based on the confirmation of Mr. Li Kwok Cheong as mentioned above, unless the other parties to the Improper Activity have valid grounds to believe that the Misuser was acting as the agent of Beijing Zhaolin or the Group in respect of the Improper Activity, neither our Group nor Beijing Zhaolin shall be liable for any contract concluded or activities conducted by the Misuser purportedly in the name of Beijing Zhaolin in respect of the Improper Activity. Our PRC legal advisers have further advised that since the details of the Improper Activity stated in the relevant articles were not clear enough, they are not able to determine the nature of the Improper Activity and opine on the legality and legal consequence thereof.

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Our PRC legal advisers have also advised that given that (i) Mr. Li Kwok Cheong has made the confirmation as mentioned above, (ii) we have confirmed that neither Beijing Zhaolin nor Mr. Li Kwok Cheong had ever authorised or at the time of the Improper Activity, was aware of the Improper Activity, none of Beijing Zhaolin and Mr. Li Kwok Cheong shall be liable for any criminal or administrative liabilities (if any) which might arise from the Improper Activity. Beijing Zhaolin's liability shall only be limited to the civil liability against any bona fide third parties who have valid reason to believe that the Unauthorised Branch was acting on behalf of Beijing Zhaolin. On 4 September 2008, Beijing Zhaolin was dissolved and deregistered. Li Kwok Cheong, being the shareholder of Beijing Zhaolin, may be required to assume such civil liability. In any event, as confirmed by our PRC legal advisers, upon dissolution of Beijing Zhaolin, any legal liabilities of Beijing Zhaolin (whether it is criminal, administrative or civil liabilities) will not be assumed by our Group or any of its subsidiaries.

As at the Latest Practicable Date, our Group or Beijing Zhaolin has not received any actual nor was it aware of any pending or threatening claims or litigation against our Group or Beijing Zhaolin in respect of the Improper Activity.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board consists of seven Directors, two of whom are executive Directors, two are non-executive Directors and three are independent non-executive Directors. The details of such Directors are set out below.

Executive Directors

Li Kwok Cheong (李國昌), aged 52, is our executive Director and chairman. He was appointed as a Director on 21 December 2007. He is also one of our co-founders of our forestry business in 2003 and a director of our following subsidiaries: Profit Wise, Sky Famous, Rich Fame, Ultra Big, Fine Fit, China Zhaoneng, Kunming Ultra Big and Chengdu Yishang. Mr. Li is mainly responsible for the Group's strategic development and oversees the Group's operations and investments. Although Mr. Li does not hold any degree or professional qualification, he graduated from 中華全國律師函授中心 (Chinese Nation Attorney Teaches by Correspondence the Centre), an organisation assisting self-learners in legal higher education examination in China, in June 1987, after he had studied law on a part-time basis for 2 years there. Mr. Li is an entrepreneur and had invested in tobacco trading from 1993 to 2001. Mr. Li conducted tobacco trading as sole proprietary by collecting and acquiring tobacco leaves from tobacco farmers and then selling these tobacco leaves to the tobacco factories in Shanxi China. As there was a change in market condition and the business became less profitable at that time, Mr. Li reckoned that the market condition for private investors to invest in tobacco trading would become worse and decided to terminate such investment and look for other business opportunities. Mr. Li has been engaged in arts investment at his leisure time and as a hobby since 1993. He purchases and collects arts items (including modern art paintings and sculpture) at auctions or from the artists in China, and sells them through auction firms occasionally or personal contact to interested buyers in China and overseas. These engagements had helped him to establish a wide business connection network in China including in China's forestry industry. In 2001, Mr. Li considered to extend his investment to property development and discovered during his feasibility research that there was a huge demand for wood in the construction industry. Meanwhile, the Chinese government issued the No. 9 Policy and encouraged the private sector to engage in China's forestry development. Mr. Li reckoned that was a good opportunity to enter the forestry industry and leveraging on his connection established, acquired his first piece of forest in China through Beijing Zhaolin in 2003. We understand that because of Mr. Li's enterprise experience, business knowledge and experience in China, he was admitted as a council member of the CCPEF and Capital Enterprises Club. CCPEF is a national non-profit association in China managed by the SFA and established for promoting the proper use of resources, protection of the environment and sustainable economic development. Mr. Li's council membership in CCPEF not only gives the Group a higher profile within the industry, but also allows Mr. Li to participate at national level discussions and policies about the development of the forestry industry in China. Capital Enterprises Club is an organisation in China whose members are mainly large enterprises from different industries and regions. Since 2005, Mr. Li has been holding up to 49% stake in Beijing Shi Ji Qiang Cultural and Arts Limited (北京世紀牆文化藝術有限公司), a private company which is engaged in exhibition organisation. Mr. Li invested in Beijing Shi Ji Qiang Cultural and Arts Limited (北京世紀牆文化藝術有限公司) because he has a keen interest in arts and wanted to promote the development of arts and culture in China. Mr. Li confirms that apart from being a passive shareholder, he currently has no directorship or participation in this company. As at the Latest Practicable Date, save as disclosed above, Mr. Li has no directorship and/or equity interest in any company which has an operation. Therefore he has actively participated in the

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

management of our Group and will allocate all of his time on our Group. Mr. Li is the brother of Mr. Li Hai Jun, our chief sales officer. He has not been a director of any other listed company at any time during the three years prior to the date of this document.

Li Han Chun (李寒春), aged 34, is our executive Director and was appointed as a Director on 21 December 2007. He is also a director of our following subsidiaries: Profit Wise, Sky Famous, Rich Fame, Ultra Big, China Zhaoneng, Fine Fit, Kunming Ultra Big and Chengdu Yishang. Mr. Li is also the chief executive officer of our Group responsible for the management of our Group's daily operations. Since the departure of Mr. Huang Fan, a former Director, from our Group in March 2008, Mr. Li has easily taken over Mr. Huang's role in dealing with public relationship and regulatory-related matters as Mr. Li had also been previously involved in these matters. Mr. Li entered the forest management industry in February 2004 when he joined our Group and is currently a council member of the CCPEF. He had also served as the marketing manager of Tianjin district at China P&G Company Limited and was involved in the marketing of a variety of products of P&G including personal and household care products. Prior to joining us, Mr. Li had about six years' management experience including industries relating to energy management system solutions and personal and household care products. He was the co-founder and managing director of Creative Energy Solutions Holdings Limited when it was listed in January 2002 on the Growth Enterprise Market of Hong Kong Stock Exchange, where Mr. Li worked from April 1999 to April 2003. Creative Energy Solutions Holdings Limited was ordered to be wound up pursuant to an order by the High Court of Hong Kong dated 14 February 2007. No liability for obligation has been imposed against Mr. Li in connection with the liquidation. That company was engaged in the design, management and implementation of energy management system solutions and he resigned as a director of that company in April 2003. Mr. Li Han Chun obtained a masters degree from the architecture faculty of Tsinghua University in July 2006. In July 1997, he graduated from Tsinghua University after completing his undergraduate studies in engineering of heat supply, ventilation and air conditioning. He is the cousin of Ms. Wu Xiao Fen, our joint chief financial officer. He has not been a director of any other listed company at any time during the three years prior to the date of this document.

Non-Executive Directors

Xiao Feng (肖楓), aged 37, is our non-executive Director. He was appointed as a Director on 8 January 2008 when the Carlyle Funds invested in us and nominated him to our Board pursuant to the Share Purchase Agreement. His term of directorship, as with all other Directors, would be subject to our Articles, including its retirement provisions. Mr. Xiao is a managing director of the Carlyle Group focused on growth capital investment in China. Prior to joining Carlyle in April 2005, Mr. Xiao was a Vice General Manager at China International Capital Corporation, a well-known investment bank in China, from January 2000 to April 2005. Mr. Xiao received his Master of Business Administration from the China Europe International Business School in April 2000. He obtained a Lawyer's Qualification Certificate in China issued by Ministry of Justice of PRC in June 1997, for which, he had to pass the national judicial examination in the PRC. He also obtained a bachelor degree in electronics and computer science technology and a Bachelor of Arts in English from Tsinghua University in July 1995. Mr. Xiao was appointed as a director of Xtep International Holdings Limited (which shares are listed on the Hong Kong Stock Exchange (Stock code: 1368)) in September 2007 and became its non-executive director in January 2008. Other than this, he is not a director of any other listed company at any time during the three years prior to the date of this document.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Li Zhi Tong (李志同), aged 67, is our non-executive Director. He was appointed as a Director on 3 April 2008. From 19 April 2005 to 18 April 2008, he was our consultant and advised us on forestry matters, and save for the reimbursement for business expenses reasonably incurred by him on our behalf, had not received any remuneration, whether in the form of service fees or otherwise. Mr. Li acquired his forestry experience by being the vice-chairman of the CCPEF since 2001 and having served as a major general at the PRC forestry security bureau (森林公安局) previously. CCPEF is a national non-profit association in China managed by the SFA and established for promoting the proper use of resources, protection of the environment and sustainable economic development. The forestry security bureau (森林公安局), also known as the forestry fire prevention office (森林防火辦公室) or armed forestry police office (武裝森林警察辦公室), is administered by both the SFA and the state public security bureau. Each level of forestry security bureau and public security bureau has a forestry security bureau at the same level. The powers of the forestry security bureau include organising, coordinating, giving guidance on and supervising the forestry fire prevention; publishing forestry fire information; handling forestry-related cases; giving guidance on the work of the timber inspection posts; liaising with associated forestry procuratorate and forestry court; and executing the work of the armed forestry police office. Mr. Li was also the first grade police superintendent in China. He has not been a director of any other listed company at any time during the three years prior to the date of this document.

Independent Non-Executive Directors

Wong Tak-jun (黃德尊), aged 47, is our independent non-executive Director. He was appointed as a Director on 3 April 2008. Mr. Wong is a Professor of Accountancy and the Dean of the Faculty of Business Administration of the Chinese University of Hong Kong (CUHK). Before joining CUHK, he has taught at the University of Maryland in the United States. Mr. Wong has published research articles in a number of finance and accounting journals. He received his Ph.D. and Master of Business Administration from University of California in December 1990 and June 1986 respectively. He has not been a director of any other listed company at any time during the three years prior to the date of this document.

Wang Wei Ying (王偉英), aged 65, is our independent non-executive Director. He was appointed as a Director on 11 August 2008. Mr. Wang has been a part-time Ph.D. student tutor of Economic Management School of Northeast Forestry University (東北林業大學經濟管理學院) since June 1998 and a professor and the vice-chancellor of Heilongjiang Forestry Science Academy (黑龍江省林業科學院院長) from October 1993 until June 2004. Since 1999, he has been a council member of Chinese Society of Forestry (中國林學會理事), a non-government organisation comprising forestry professionals in China. In August 2003, he was awarded first-grade (advancement category) scientific technology award for his research in integrated technology applicable to timber-wood-based sustainable forestry development. He has not been a director of any other listed company at any time during the three years prior to the date of this document.

Liu Can (劉璨), aged 43, is our independent non-executive Director. He was appointed as a Director on 11 August 2008. He obtained a master degree in agriculture from Nanjing Forestry University in November 1992 and a PhD degree in management from China Agriculture University in July 2000. From September 2002, Mr. Liu has been an honorary professor and post-graduate student tutor of Economic Management School of China Agriculture University (中國農業大學經濟管理學院), and from November 2006, a visiting professor of Qingdao Agriculture University (青島農業大學). He has been conducting research for the

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Economic Development Research Centre of the China Forestry Scientific Research Academy established by SFA (中國林業科學院經濟發展研究中心). Mr. Liu has written books relating to forestry. He has not been a director of any other listed company at any time during the three years prior to the date of this document.

SENIOR MANAGEMENT

Tong Wai Kit, Raymond (唐偉傑), aged 36, is the joint chief financial officer, company secretary and qualified accountant of our Group. Mr. Tong is primarily responsible for overseeing our Group's financial reporting procedures, internal controls and compliance with the Hong Kong Listing Rules and other relevant laws and regulations. He joined our Group in April 2008 on a full-time basis, and has over 13 years' working experience in the related fields of finance, audit and accounting. Prior to joining our Group, Mr. Tong, from July 2006 to December 2007, worked as a chief financial officer, company secretary and qualified accountant for ZZNode Technologies Company Limited, which is principally engaged in the development and provision of telecommunications operational support system products and solutions in the PRC and which shares are listed on the Hong Kong Stock Exchange (stock code: 2371). From March 2004 to June 2006, Mr. Tong worked as a joint company secretary for China Minsheng Banking Corporation Limited, and from April 2003 to December 2003, he worked as a chief financial officer and company secretary for Nanjing Dahe Outdoor Media Company Limited (currently known as Dahe Media Co., Ltd.), which is an outdoor advertising service provider in the PRC and which shares are listed on the Growth Enterprise Market of Hong Kong Stock Exchange (stock code: 8243). Mr. Tong is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated in June 1995 from Hong Kong Polytechnic University with a bachelor's degree in accountancy. He is ordinarily resident in Hong Kong.

Wu Xiao Fen (吳曉芬), aged 33, is the joint chief financial officer of our Group and responsible for our Group's overall accounting and financial management. She joined our Group in January 2005. Prior to joining our Group, she had been the chief officer of the finance department of Beijing Kerui Yilian Energy Solution Technology Development Company Limited, which is an Independent Third Party and principally engaged in the production and sales of central air conditioning refrigeration control system. She gained her experience of financial management, budgeting and planning through her work at this company prior to joining us. Ms. Wu holds an intermediary accountant certificate and a registered tax agent certificate in China, for which, she had to pass the intermediary accounting qualification examination and certified tax agent practising qualification examination in the PRC respectively. She obtained her bachelor degree in accounting from the Economics Management Faculty of Tsinghua University in July 1999. She is the cousin of one of our executive Directors, Mr. Li Han Chun.

Zhang Hong Yu (張宏宇), aged 33, is the chief resource officer of our Group. He oversees our overall forestry management and the operation of our resources management department. He joined our Group in January 2005. Prior to joining our Group, he had been the manager of the administrative department of Huicong Commercial Information and Advertising (Beijing) Co., Ltd. which is principally engaged in the provision of commercial information and advertising service. He gained his management experience through his work at this Company prior to joining us. He holds a bachelor degree in chemistry from Beijing Normal University in July 2000.

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Li Hai Jun (李海軍), aged 39, is the chief sales officer of our Group and responsible for our Group's sales and marketing management. He joined our Group in February 2008. Prior to joining our Group, he had been the personal assistant of Mr. Li Kwok Cheong for about three years. From July 2000 to January 2005, he worked for Sichuan Sheng Hong Forestry Development Co., Ltd. (四川生宏林業發展有限公司) which is principally engaged in the harvesting and sales of timber, and was responsible for its operation and management. Prior to this, he had worked for Sichuan Yi Jin Forestry Development Co., Ltd. (四川億錦林業發展有限公司), a forestry management company, and he was engaged in its forest maintenance. He gained his experience of forestry management and sales of timber through his work at the aforesaid two companies prior to joining us. Mr. Li graduated from Sichuan Agricultural University in July 1992 after completing his studies in forestry. He is the brother of our chairman, Mr. Li Kwok Cheong.

CONSULTANTS

We currently have retained two forestry consultants. They are Mr. Meng Fan Zhi and Mr. Ma Lu Yi, who are Independent Third Parties but not our employees.

Since 2001, Mr. Meng has continually served as the secretary of the CCPEF and has 8 years' experience in the forestry industry. As an evidence of his expertise in the industry, Mr. Meng has written books related to forestry in the PRC, namely *China Ecological Conservation Theory and the World* (中國生態環保理論與世界) published in 2006 and *Guide on China Forest Parks and Natural Conservation Districts* (中國森林公園與自然保護區覽勝) published in 2008. Mr. Meng has been our consultant for 3 years and other than this position, he has no other business relationship with us. CCPEF is a non-profit social organisation registered with the China Ministry of Civil Affairs and therefore, our PRC legal advisers, Commerce and Finance Law Offices advised that Mr. Meng is not a public servant by virtue of his being the secretary of the CCPEF, and accordingly he is not prohibited by or restricted under the PRC laws to act as our consultant.

Mr. Ma has 17 years' experience in the forestry industry and is involved in academic research in the management of environment, forestry, and water resources. He is also the deputy dean of the Graduate School of Beijing Forestry University. Mr. Ma first became our consultant on 7 April 2008 and other than this position, he has no other business relationship with us.

We have entered into consultant agreements with Mr. Meng and Mr. Ma. Pursuant to these agreements, they will provide us with information and advice on compliance of forestry laws and our forest acquisition proposals, for a term of 3 years commencing on 7 April 2008 and ending on 6 April 2011, unless earlier terminated by the consultants due to unauthorised disclosure of their service products by us to any third party without their prior consent. The agreements do not obligate our consultants to achieve our profit targets. Pursuant to the consultant agreements, we shall appoint a chief officer for liaising and communicating on our behalf with the consultants. The consultants may provide business advice to us but we shall independently determine our treatment of such advice. We shall provide such information of our Group to the consultants which are necessary for them to perform their consulting work. Whilst we, without their prior consent, may not disclose to any third party any information possessed, prepared or provided by them, they also have the obligation to keep all business information provided by us confidential. As evidence of the consultants' motivation to promote China's forestry industry, according to the consultant agreements, Mr. Meng and Mr. Ma are

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not entitled to receive any fees. We do, in practice, reimburse for expenses reasonably incurred from attending meetings and, where necessary, from providing on-site consultation. Save for business expense reimbursements, they will not receive any remuneration, whether in the form of service fees or otherwise, for their services.

BOARD COMMITTEES

Audit Committee

We have established an Audit Committee.

The Audit Committee has three members comprising Mr. Wong Tak-jun, Mr. Wang Wei Ying and Mr. Liu Can, all of whom are our independent non-executive Directors. The chairman of the Audit Committee is Mr. Wong Tak-jun.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of our Company, nominate and monitor external auditors and provide advice to our Directors.

Remuneration Committee

We have established a Remuneration Committee. Our Remuneration Committee has three members comprising Mr. Wong Tak-jun and Mr. Wang Wei Ying, our independent non-executive Directors, and Mr. Xiao Feng, our non-executive Director. The chairman of the Remuneration Committee is Mr. Wong Tak-jun.

The primary functions of the Remuneration Committee are to:

- (a) make recommendations to our Directors on our policy and structure for the remuneration of our directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration;
- (b) determine the terms of the specific remuneration package of each executive director and senior management of our Company;
- (c) review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the directors from time to time;
- (d) review and approve the compensation payable to the Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive;
- (e) review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and
- (f) ensure that no Director or any of his associates is involved in deciding his own remuneration.

We have established a Nomination Committee. Our Nomination Committee has three members comprising Mr. Li Han Chun, our executive Director, and Mr. Wang Wei Ying and Mr.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Liu Can, our independent non-executive Directors. The chairman of the Nomination Committee is Mr. Li Han Chun.

The primary functions of the Nomination Committee are to:

- (a) review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) identify, select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) assess the independence of our independent non-executive Directors; and
- (d) make recommendations to the Board on relevant matters relating to the appointment or reappointment of our Directors and succession planning for our Directors.
- (e) report to the Board its decisions of recommendations, except for those restricted by law or regulatory requirements; and
- (f) make recommendations to the Board, in particular to ensure the majority of the Board is independent of the management.

EMPLOYEES

As of 31 December 2006, 2007 and 2008 and 30 June 2009, we had approximately 134, 254, 393 and 400 employees respectively. The following table sets forth the number of our employees by their functions:

	As of 31 December 2006		As of 31 December 2007		As of 31 December 2008		As of 30 June 2009	
	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total	Number of Employees	% of Total
Finance	4	3.0%	5	2.0%	6	1.5%	5	1.3%
Administration ..	8	6.0%	10	3.9%	13	3.3%	17	4.2%
Resources management (excluding forest workers) (Note 1)	33	24.6%	33	13.0%	48	12.2%	46	11.5%
Sales and marketing	8	6.0%	8	3.1%	9	2.3%	15	3.8%
Forest workers (Note 2)	81	60.4%	198	78.0%	317	80.7%	317	79.2%
Total:	134	100%	254	100%	393	100%	400	100%

Notes:

- (1) This category refers to our dedicated forest team (which regularly visits our forests to monitor our forest workers and the conditions of our forests) and our staff under the resources management department excluding forest workers.
- (2) These forest workers refer to our forest workers stationed in our forests who regularly inspect our forests and report to our resources management department to ensure continuing compliance with forestry regulations.

All of our employees are employed under employment contracts. We review the performance of our employees on an annual basis against our target, the results of which are

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used in his or her salaries review and promotion appraisal. We review our staff's remuneration packages on an annual basis. We conduct research on remuneration packages offered to similar positions in our industry which we believe allows us to remain competitive in the labour market.

Employee Benefits

During the Track Record Period, we had a predecessor entity in the PRC, Beijing Zhaolin, which failed to make certain social contributions and housing related contributions for its forest workers in Sichuan. Other than this, we have complied with the relevant labour and social welfare laws and regulations in the PRC. We currently make contributions to the social insurance fund for all of our employees in compliance with the relevant PRC laws. We have obtained a confirmation from the relevant labour bureau in Yunnan and Sichuan that our PRC subsidiaries, Kunming Ultra Big and Chengdu Yishang have complied with the relevant labour and social welfare laws and regulations.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes organised by the PRC municipal government authorities whereby the Group is required to make contributions to such schemes at a rate of 20% of the eligible employees' salaries. Contributions to such schemes vest immediately. For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our contribution to such schemes amounted to RMB313,699, RMB342,960, RMB507,892 and RMB787,927 respectively.

For the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, our total employee benefit expenses (which include wages, salaries, benefits and contributions to social insurance fund but exclude share-based payment) amounted to approximately RMB3.4 million, RMB3.5 million, RMB9.6 million and RMB[5.7] million respectively. Our staff costs increased by RMB6.12 million, or approximately 174.9%, from RMB3.5 million for the year ended 31 December 2007 to RMB9.6 million for the year ended 31 December 2008. This increase was driven primarily by an [54.7]% increase in headcount and a bonus of approximately RMB2.1 million paid to our staff.

We recognise the importance and contribution of our staff and will comply with the relevant labour laws and regulations. Since April 2008, we have entered into new labour contracts with our staff which provide that we shall fully pay the social insurance contributions for our employees in compliance with the national and local social insurance laws and regulations in the PRC. We have not experienced any strikes, work stoppages or significant labour disputes which have affected our operations in the past and we have not experienced any significant difficulties in recruiting and retaining qualified staff.

Training

We place great emphasis on the training and development of our staff. We provide internal and external training programs to our employees on areas such as forestry knowledge, customer service and technical skills. New hires are required to attend induction courses to ensure that they are equipped with the necessary skills and knowledge to perform their duties. Our training is focused on our forest workers. Our dedicated forest team will provide training to our forest workers about once a month, through classroom lecture, forest visit and consultation. During the training, our forest workers will learn how to conduct a survey in

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forest, how to complete our tree survey report and how to monitor our forest. They will also be taught the forestry laws and regulations, and the general knowledge of forest management such as precautions for forest fire and pest control.

SHARE OPTION SCHEME

We have conditionally adopted a share option scheme. Details of the principal terms of our Share Option Scheme are summarised in the sections head "Statutory and General Information — Share Option Scheme" in Appendix VII to this document.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The Group's remuneration policies are formulated based on qualifications, years of experiences and the performance of individual employees and are reviewed regularly. It is expected that our chairman will receive an annual remuneration of RMB1,200,000 and the annual remuneration of Mr. Li Han Chun and other senior management members will increase approximately [150]% and [194]% respectively.

The aggregate amount of compensation (including any salaries, fees, discretionary bonuses and other allowances and benefits in kind but excluding share-based payment) paid by us during the years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, to those persons who have been or are our Directors, was approximately RMB318,748, RMB380,966, RMB1,480,000 and RMB534,755 respectively. The fees or contributions to pension schemes or retirement benefit plans payable by us to or on behalf of our Directors during these periods was approximately RMB19,016, RMB21,164, RMB23,354 and RMB12,686 respectively. During the Track Record Period, Mr. Li Han Chun, our executive Director, was the only Director who has received remuneration from us. During the Track Record Period, Mr. Li Kwok Cheong was the sole director of Beijing Zhaolin, and no payments were made to him. Our PRC legal advisers have confirmed that Beijing Zhaolin did not violate any PRC laws by virtue of not paying Mr. Li Kwok Cheong, its director, any fees or contributions.

The aggregate amount of fees, salaries, discretionary bonuses and contributions to retirement benefit plans paid by us to the five highest paid individuals of our Group (other than our Directors) during the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 was approximately RMB652,032, RMB756,342, RMB1,598,562 and RMB906,104 respectively.

During the three years ended 31 December 2008 and the six months ended 30 June 2009, no remuneration was paid by us to or receivable by any of our Directors, or the five highest paid individuals of our Group, as an inducement to join or upon joining us, and no compensation was paid by us to or receivable by any of our Directors, or past director of the Company, or the five highest paid individuals of our Group, for the loss of office as our Director or of any other office in connection with the management of our affairs. None of our Directors has waived or agreed to waive any emoluments during the three years ended 31 December 2008 and the six months ended 30 June 2009.

Except as disclosed above, no other payments have been paid or are payable, in respect of the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009 by us or any of our subsidiaries to our Directors or the five highest paid

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

individuals of our Group. It is estimated that under the current arrangements presently in force, the Directors will be entitled to receive remuneration and benefits in kind which, for the year ending 31 December 2009 is expected to be approximately RMB600,000, excluding the discretionary bonuses and share-based payments payable to the executive Directors.

PARTICULARS OF DIRECTORS' SERVICE CONTRACTS

Details of service contracts entered into between us and each of our directors are summarized in the section headed "Statutory and General Information — Further Information About the Directors — Directors' Service Contracts" in Appendix VII to this document.

COMPLIANCE ADVISOR

We have entered into an agreement with [●] pursuant to which we will appoint them as our compliance adviser. The compliance adviser will advise us on the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- where the Hong Kong Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

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

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

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

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

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

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

NON-COMPETITION UNDERTAKING

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

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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

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

Such non-competition undertaking does not apply to:

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

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

DIRECTORS

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

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

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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

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

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

CORPORATE GOVERNANCE MEASURES

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

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

FINANCIAL INFORMATION

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.

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Consolidated Statements of Comprehensive Income

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB (unaudited)	RMB
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	<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,501,477</u>	<u>5,228,080,899</u>	<u>430,292,140</u>
Attributable to:					
Equity shareholders of the Company	<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,501,477</u>	<u>5,228,080,899</u>	<u>430,292,140</u>

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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	<u>578,144,731</u>	<u>1,370,111,297</u>	<u>7,925,777,868</u>	<u>8,144,757,050</u>
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 ...	<u>24,987,607</u>	<u>1,028,859</u>	<u>104,530,763</u>	<u>381,977,066</u>
Total current assets	<u>31,909,872</u>	<u>22,705,244</u>	<u>142,111,074</u>	<u>460,996,935</u>
Current liabilities				
Other payables	<u>(3,236,474)</u>	<u>(2,269,073)</u>	<u>(311,485,494)</u>	<u>(459,966,834)</u>
Total current liabilities	<u>(3,236,474)</u>	<u>(2,269,073)</u>	<u>(311,485,494)</u>	<u>(459,966,834)</u>
Net current assets/				
(liabilities)	<u>28,673,398</u>	<u>20,436,171</u>	<u>(169,374,420)</u>	<u>1,030,101</u>
Total assets less current				
liabilities	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,756,403,448</u>	<u>8,145,787,151</u>
Non-current liabilities				
Other payables	—	—	(321,053,207)	—
Total non-current				
liabilities	<u>—</u>	<u>—</u>	<u>(321,053,207)</u>	<u>—</u>
Net assets	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,435,350,241</u>	<u>8,145,787,151</u>
Capital and reserves				
Share capital	10,000,001	10,000,000	232,245	256,606
Reserves	<u>596,818,128</u>	<u>1,380,547,468</u>	<u>7,435,117,996</u>	<u>8,145,530,545</u>
Total equity attributable to				
equity shareholders of the				
Company	<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,435,350,241</u>	<u>8,145,787,151</u>

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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	<u>43,490,926</u>	<u>96,042,152</u>	<u>376,592,857</u>	<u>47,864,050</u>	<u>284,887,561</u>
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	<u>(36,211,416)</u>	<u>(120,000,900)</u>	<u>(347,835,316)</u>	<u>(47,897,561)</u>	<u>(287,586,028)</u>
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	<u>—</u>	<u>—</u>	<u>74,744,363</u>	<u>248,118,354</u>	<u>280,144,770</u>
Net movement in cash and cash equivalents	<u>7,279,510</u>	<u>(23,958,748)</u>	<u>103,501,904</u>	<u>248,084,843</u>	<u>277,446,303</u>
Cash and cash equivalents at 1 January	<u>17,708,097</u>	<u>24,987,607</u>	<u>1,028,859</u>	<u>1,028,859</u>	<u>104,530,763</u>
Cash and cash equivalents at 31 December/30 June	<u>24,987,607</u>	<u>1,028,859</u>	<u>104,530,763</u>	<u>249,113,702</u>	<u>381,977,066</u>

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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

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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;

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- (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.

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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.

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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/m ³ at Roadside	Annual Change (compared to price 12 months prior) (%)	Average Log Price RMB/m ³ at Roadside	Annual Change (compared to price 12 months prior) (%)	Average Log Price RMB/m ³ at Roadside	Annual Change (compared to price 12 months prior) (%)	Average Log Price RMB/m ³ 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/m ³)	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.

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(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

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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 m³/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.

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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

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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:

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

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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 m³ 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 m³ and RMB191 per m³ 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 m³, RMB55 per m³ and RMB55 per m³, respectively, and for the 2008 financial year were RMB45 per m³ in Yunnan and for the 2009 first half were RMB55 per m³ in Sichuan and RMB45 per m³ 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

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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.

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(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

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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.

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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.

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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

Risk Factor	Weighting	Forest Estate					
		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⁾ ...		<u>18-27</u>	<u>15-24</u>	<u>29-41</u>	<u>31</u>	<u>36</u>	<u>41</u>

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

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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.

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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

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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

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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

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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:

<u>IDR (%)</u>	<u>2007</u>	<u>Jan to Aug 2008</u>	<u>Sep to Dec 2008</u>	<u>1H 2009</u>
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.

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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.

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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

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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.

	<u>5.0% decrease</u>	<u>Base case</u>	<u>5.0% increase</u>
<i>Sichuan</i>			
Assumed log price (RMB/m ³)	906	954	1,002
Gain/ (loss) from changes in fair value (RMB)	(195,277,442)	(110,277,442)	(25,277,442)
<i>Yunnan Luxi</i>			
Assumed log price (RMB/m ³)			
— 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
<i>Yunnan Wenshan</i>			
Assumed log price (RMB/m ³)	912	960	1,008
Gain/ (loss) from changes in fair value (RMB)	1,464,723,960	1,684,723,960	1,903,723,960
<i>All forest</i>			
Gain/ (loss) from changes in fair value (RMB)	5,384,364,199	6,024,364,199	6,663,364,199

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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.

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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

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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 (RMB)	2008 (unaudited)	2009
Revenues	70,122,597	160,318,269	544,947,744	117,056,039	373,247,913

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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.

Log sales volume (m3)	For the period ended				
	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

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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 m³, 169,329 m³, 519,928 m³ and 356,730 m³ 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 (unaudited)	2009
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	<u>93.9%</u>	<u>85.3%</u>	<u>44.8%</u>	<u>48.5%</u>	<u>56.2%</u>

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,

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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.

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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.

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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

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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.

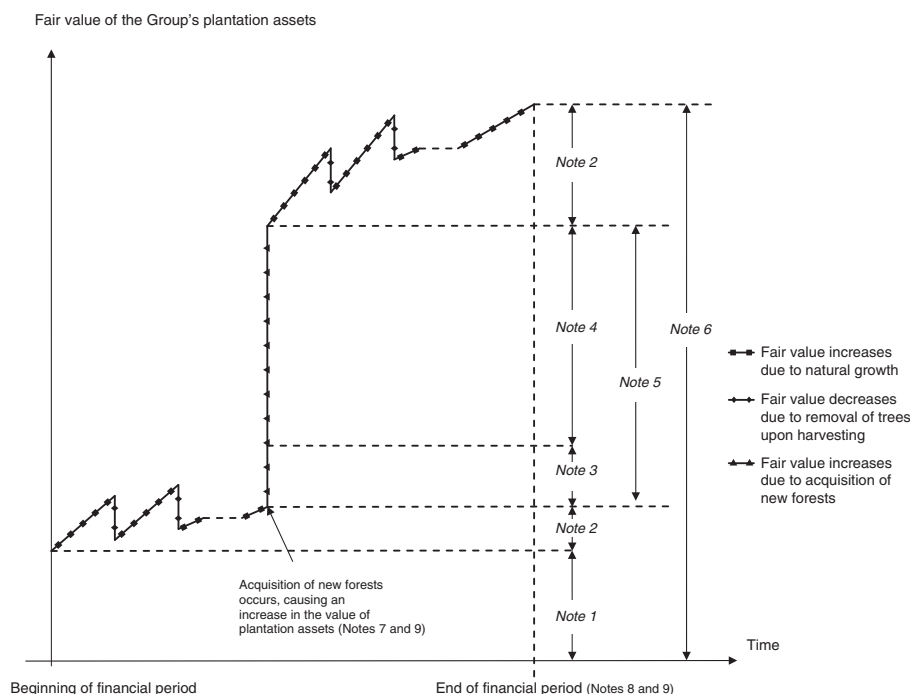
View of CFK

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.

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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.

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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.

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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 2009
		2006	2007	2008	
Premium		<i>(RMB)</i>			
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.

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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 (RMB)	2008 (unaudited)	2009
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

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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 (unaudited)	2009
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
	<u>2,813,311</u>	<u>5,501,365</u>	<u>14,286,072</u>	<u>7,606,428</u>	<u>6,723,880</u>

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.

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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.

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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 m³ of logs for the 2009 first half, a 162.6% increase from the 122,607 m³ 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

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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 m³ in the 2008 first half to RMB245 per m³ 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

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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

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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.

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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 m³ of logs in the year ended 31 December 2008, an approximately 206.5% increase from the 169,800 m³ 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.

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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 m³ in the 2007 financial year to RMB231 per m³ 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.

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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

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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

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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 m³ of logs in the year ended 31 December 2007, a 122.8% increase from the 76,200 m³ 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

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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 m³ in the 2006 financial year to RMB173 per m³ in the 2007 financial year because of increased logging activities. Our costs associated with applying for logging permits, consisting of Forest Maintenance Fees payments,

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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,

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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.

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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 (RMB)	2008	2009
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

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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.

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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	<u>403,606</u>	<u>26,205</u>	<u>7,271,789</u>	<u>1,970,047</u>

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

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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

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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.

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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
	<u>2,316,474</u>	<u>2,269,073</u>	<u>56,649,745</u>	<u>115,392,539</u>

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

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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

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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

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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
	<u>6,238,089</u>	<u>21,329,976</u>	<u>37,580,311</u>	<u>58,612,384</u>

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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

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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 2009
	2006	2007	2008	
			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.

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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	<u>461.0</u>	<u>409.4</u>
Current liabilities		
Other payables	(460.0)	(328.3)
Total current liabilities	<u>(460.0)</u>	<u>(328.3)</u>
Net current assets	<u>1.0</u>	<u>81.1</u>

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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

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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
	<u>3,043,211</u>	<u>1,328,266</u>	<u>2,792,347</u>	<u>2,136,334</u>

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

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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	<u>930.8</u>	<u>872</u>

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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

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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

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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	<u>[860,340,000]</u>

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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/m ³)			
● Chinese fir	935	919	941
● Yunnan pine	n/a	919	n/a
● Beech	n/a	1,197	n/a
● Birch	n/a	1,268	n/a
Cost			
● Annual cost (RMB/hectare)	1,050	1,050	1,050
● Logging cost (RMB/m ³)	226	273	273
● Harvesting and sales costs (RMB/m ³)	63	53	60
Total yield estimate (m ³) (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.

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

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

This sensitivity illustration is intended for reference only, and any variation could exceed the amounts indicated. Investors should note in particular that (i) this sensitivity illustration is not intended to be exhaustive and is limited to the impact of changes in the fair value of our plantation assets less costs to sell and changes in key 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

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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

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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.

FUTURE PLANS

FUTURE PLANS

Development Strategies

Our aim is to build on our strengths to become a leading player in the privatisation process of the forest industry and a leading integrated forest resources company in the Asia Pacific region. We are seeking opportunities to acquire other high quality forests in China. With the expansion in forest reserves, we believe our sales and profitability will increase. At the same time, we plan to further improve our business management and operations to cope with our rapid expansion, by recruiting experienced talent in the forestry industry, recruiting qualified university graduates specialised in forestry and forestry science, and engaging forestry consulting firms to work for us. Our Directors are of the view that the amount and timing of our capital expenditure plans in the near future will be highly dependant on the cash flow generated from our operations.

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

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

APPENDIX I

ACCOUNTANT'S REPORT

The following is the text of a report for the purpose of incorporation in this document, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors
China Forestry Holdings Co., Ltd.

Dear Sirs,

Introduction

We set out below our report on the financial information relating to China Forestry Holdings Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group, for each of the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 (the "Relevant Period"), and the consolidated balance sheets of the Group as at 31 December 2006, 2007 and 2008 and 30 June 2009 and of the Company as at 31 December 2008 and 30 June 2009, together with the notes thereto (the "Financial Information"), for inclusion in the document of the Company dated 19 November 2009 (the "document").

The Company was incorporated in the Cayman Islands on 21 December 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the "Reorganisation") as detailed in the section headed "History, Reorganisation and Corporate Structure" to the document, the timber and forestry related businesses of Beijing Zhaolin Forestry Development Co., Ltd. (the "Predecessor Entity"), were transferred to certain companies which are now subsidiaries of the Group and the Company also became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section B below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the companies comprising the Group and the Predecessor Entity, except for Beijing Zhaolin Forestry Development Co., Ltd., China Zhaoneng Group Limited, Kunming Ultra Big Forestry Resource Development Co., Ltd., Chengdu Yishang Forestry Resource Development Co., Ltd., Ultra Big Investment Limited, and Fine Fit Limited as they either have not carried on any business since their respective dates of incorporation, or are investment holding companies and are not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation. We have, however, reviewed all significant transactions of these companies during the Relevant Period, or where the companies were incorporated/established at a date later than 1 January 2006, for the period from their respective dates of establishment/incorporation to 30 June 2009, for the purpose of this report.

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ACCOUNTANT'S REPORT

The statutory financial statements of Beijing Zhaolin Forestry Development Co., Ltd. for the year ended 31 December 2006 and 2007 were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC"). The statutory financial statements for the years ended 31 December 2006 and 2007 were audited by Morison (Beijing) Certified Public Accounting Co., Ltd.

The statutory financial statements of China Zhaoneng Group Limited for the period from 15 November 2006 (date of incorporation) to 31 December 2007 and for the year ended 31 December 2008 were prepared in accordance with all applicable Hong Kong Financial Reporting Standards and audited by KPMG.

The statutory financial statements of Ultra Big Investment Limited and Fine Fit Limited for the period from 3 December 2007 (date of incorporation) to 31 December 2008 were prepared in accordance with all applicable Hong Kong Financial Reporting Standards and audited by KPMG.

The statutory financial statements of Kunming Ultra Big Forestry Resource Development Co., Ltd for the period from 7 March 2008 (date of incorporation) to 31 December 2008 were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC and audited by Kunming Yatai Certified Public Accountants Co., Ltd.

The statutory financial statements of Chengdu Yishang Forestry Resource Development Co., Ltd for the period from 21 March 2008 (date of incorporation) to 31 December 2008 were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC and audited by Sichuan Huaqiang Certified Public Accountants Co., Ltd.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section B below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section B, which are in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance.

Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility to form an opinion on the Financial Information based on our audit procedures.

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ACCOUNTANT'S REPORT

Basis of opinion

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

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

We have not audited any financial statements of the entities now comprising the Group in respect of any period subsequent to 30 June 2009.

Opinion

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section B below and in accordance with the accounting policies set out in Section B below, gives a true and fair view of the Group's consolidated results and cash flows for the Relevant Period and the Group's state of affairs as at 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 and the Company's state of affairs as at 31 December 2008 and 30 June 2009.

Corresponding financial information

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2008, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

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A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

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A FINANCIAL INFORMATION

1 Consolidated income statements

	Section B Note	Years ended 31 December			Six months ended 30 June	
		2006	2007	2008	2008	2009
		RMB	RMB	RMB	RMB (unaudited)	RMB
Turnover	3	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	12	(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	13					
- 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	11	(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	14	(54,946,100)	(121,116,600)	(384,853,771)	(85,801,879)	(277,949,785)
Staff costs	4	(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		<u>339,606,257</u>	<u>783,555,246</u>	<u>5,884,148,296</u>	<u>5,230,826,826</u>	<u>487,873,500</u>
Financing income		149,624	174,094	1,480,623	384,110	176,309
Financing expenses		—	—	(3,854,221)	—	(55,979,169)
Net financing income/ (expenses)	5	<u>149,624</u>	<u>174,094</u>	<u>(2,373,598)</u>	<u>384,110</u>	<u>(55,802,860)</u>
Profit before taxation		<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,774,698</u>	<u>5,231,210,936</u>	<u>432,070,640</u>
Income tax	6	—	—	—	—	—
Profit for the year/ period		<u><u>339,755,881</u></u>	<u><u>783,729,340</u></u>	<u><u>5,881,774,698</u></u>	<u><u>5,231,210,936</u></u>	<u><u>432,070,640</u></u>
Attributable to:						
Equity shareholders of the Company		<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,774,698</u>	<u>5,231,210,936</u>	<u>432,070,640</u>
Earnings per share (RMB)	8					
- Basic		<u>0.15</u>	<u>0.35</u>	<u>2.61</u>	<u>2.32</u>	<u>0.19</u>

The accompanying notes form part of the Financial Information.

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2 Consolidated statements of comprehensive income

	Section B Note	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		<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,501,477</u>	<u>5,228,080,899</u>	<u>430,292,140</u>
Attributable to:						
Equity shareholders of the Company		<u>339,755,881</u>	<u>783,729,340</u>	<u>5,881,501,477</u>	<u>5,228,080,899</u>	<u>430,292,140</u>

The accompanying notes form part of the Financial Information.

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3 Consolidated balance sheets

	Section B Note	At 31 December			At 30 June
		2006	2007	2008	2009
		RMB	RMB	RMB	RMB
Non-current assets					
Property, plant and equipment, net	11	602,918	442,851	6,951,089	8,791,507
Lease prepayments	12	10,641,813	31,468,446	225,826,779	221,965,543
Plantation assets	13	566,900,000	1,338,200,000	7,693,000,000	7,914,000,000
Total non-current assets		<u>578,144,731</u>	<u>1,370,111,297</u>	<u>7,925,777,868</u>	<u>8,144,757,050</u>
Current assets					
Inventories — timber logs	14	684,176	346,409	—	20,407,485
Other receivables	15	6,238,089	21,329,976	37,580,311	58,612,384
Cash and cash equivalents	16	24,987,607	1,028,859	104,530,763	381,977,066
Total current assets ...		<u>31,909,872</u>	<u>22,705,244</u>	<u>142,111,074</u>	<u>460,996,935</u>
Current liabilities					
Other payables	17	(3,236,474)	(2,269,073)	(311,485,494)	(459,966,834)
Total current liabilities		<u>(3,236,474)</u>	<u>(2,269,073)</u>	<u>(311,485,494)</u>	<u>(459,966,834)</u>
Net current assets/(liabilities)		<u>28,673,398</u>	<u>20,436,171</u>	<u>(169,374,420)</u>	<u>1,030,101</u>
Total assets less current liabilities		<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,756,403,448</u>	<u>8,145,787,151</u>
Non-current liabilities					
Other payables	17	—	—	(321,053,207)	—
Total non-current liabilities		<u>—</u>	<u>—</u>	<u>(321,053,207)</u>	<u>—</u>
Net assets		<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,435,350,241</u>	<u>8,145,787,151</u>
Capital and reserves ...	19				
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		<u>606,818,129</u>	<u>1,390,547,468</u>	<u>7,435,350,241</u>	<u>8,145,787,151</u>

The accompanying notes form part of the Financial Information.

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4 Consolidated statements of changes in equity

	Section B Note	Attributable to equity shareholders of the Company							
		Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Capital reserve	Exchange reserve	Retained Earnings	Total Equity
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
At 1 January 2006 ...		10,000,000	—	5,000,000	11,706,923	—	—	240,355,324	267,062,247
Incorporation	19	1	—	—	—	—	—	—	1
Total comprehensive income for the year		—	—	—	—	—	—	339,755,881	339,755,881
Transfer in/(out)		—	—	11,706,923	(11,706,923)	—	—	—	—
At 31 December 2006		10,000,001	—	16,706,923	—	—	—	580,111,205	606,818,129
At 1 January 2007 ...		10,000,001	—	16,706,923	—	—	—	580,111,205	606,818,129
Reorganisation	19	(1)	—	—	—	—	—	—	(1)
Total comprehensive income for the year		—	—	—	—	—	—	783,729,340	783,729,340
At 31 December 2007		10,000,000	—	16,706,923	—	—	—	1,363,840,545	1,390,547,468
At 1 January 2008 ...		10,000,000	—	16,706,923	—	—	—	1,363,840,545	1,390,547,468
Share issued	24	232,245	247,886,109	—	—	—	—	—	248,118,354
Payment to shareholder upon reorganisation ...	26	(10,000,000)	—	(16,706,923)	—	—	—	(146,667,068)	(173,373,991)
Equity-settled share- based transaction	18	—	—	—	—	88,556,933	—	—	88,556,933
Appropriation to statutory reserve ..		—	—	170,865,000	—	—	—	(170,865,000)	—
Total comprehensive income for the year		—	—	—	—	—	(273,221)	5,881,774,698	5,881,501,477
At 31 December 2008		232,245	247,886,109	170,865,000	—	88,556,933	(273,221)	6,928,083,175	7,435,350,241
At 1 January 2009 ...		232,245	247,886,109	170,865,000	—	88,556,933	(273,221)	6,928,083,175	7,435,350,241
Share issued	24	24,361	280,120,409	—	—	—	—	—	280,144,770
Total comprehensive income for the period		—	—	—	—	—	(1,778,500)	432,070,640	430,292,140
At 30 June 2009		256,606	528,006,518	170,865,000	—	88,556,933	(2,051,721)	7,360,153,815	8,145,787,151
(unaudited)									
At 1 January 2008 ...		10,000,000	—	16,706,923	—	—	—	1,363,840,545	1,390,547,468
Share issued	24	232,245	247,886,109	—	—	—	—	—	248,118,354
Equity-settled share- based transaction	18	—	—	—	—	88,556,933	—	—	88,556,933
Total comprehensive income for the period		—	—	—	—	—	(3,130,037)	5,231,210,936	5,228,080,899
At 30 June 2008		10,232,245	247,886,109	16,706,923	—	88,556,933	(3,130,037)	6,595,051,481	6,955,303,654

The accompanying notes form part of the Financial Information.

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5 Consolidated statements of cash flows

	Section B Note	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	20	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		<u>(36,211,416)</u>	<u>(120,000,900)</u>	<u>(347,835,316)</u>	<u>(47,897,561)</u>	<u>(287,586,028)</u>
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		<u>—</u>	<u>—</u>	<u>74,744,363</u>	<u>248,118,354</u>	<u>280,144,770</u>
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		<u>17,708,097</u>	<u>24,987,607</u>	<u>1,028,859</u>	<u>1,028,859</u>	<u>104,530,763</u>
Cash and cash equivalents at 31 December/30 June . .	16	<u>24,987,607</u>	<u>1,028,859</u>	<u>104,530,763</u>	<u>249,113,702</u>	<u>381,977,066</u>

The accompanying notes form part of the Financial Information.

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B NOTES TO THE FINANCIAL INFORMATION

1 Basis of presentation

The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group include the results of operations of the companies comprising the Group for the Relevant Period (or where the companies were incorporated at a date later than 1 January 2006, for the period from date of incorporation to 30 June 2009) as if the current group structure and the transfer of business from the Predecessor Entity had been in existence throughout the entire Relevant Period. The consolidated balance sheets of the Group as at 31 December 2006, 2007, 2008 and 30 June 2009 have been prepared to present the state of affairs of the companies comprising the Group as at the respective dates as if the current group structure and the transfer of business from the Predecessor Entity had been in existence as at the respective dates.

All material intra-group transactions and balances have been eliminated on combination.

Pursuant to the Reorganisation, the timber and forestry related businesses together with the relevant assets and liabilities representing the only business of Predecessor Entity were transferred to the companies comprising the Group.

As the ultimate equity holder, Li Kwok Cheong controlled the aforesaid business operations of the Predecessor Entity transferred to the companies comprising the Group before the Reorganisation and continues to control the companies comprising the Group after the Reorganisation, the Financial Information has been prepared as a reorganisation of businesses under common control. Merger accounting is applied in the preparation of the Financial Information. Accordingly, the relevant assets and liabilities of the Predecessor Entity transferred to the companies comprising the Group have been recognised at historical cost.

The details of the subsidiaries directly or indirectly owned by the Company and the Predecessor Entity are set out in notes 25 and 26.

2 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes International Accounting Standards and related interpretations promulgated by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies are set out in the remainder of this section B.

The IASB has issued a number of new and revised IFRSs. For the purposes of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the period ended 30 June 2009. The revised and new accounting standards and interpretations issued but not yet effective for the period ended 30 June 2009 are set out in note 27.

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The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation of the Financial Information

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest yuan. It is prepared on the historical cost basis except plantation assets (see note 2(h)) that are stated at their fair value.

A summary of the significant accounting policies adopted by the Group is set out below.

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

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

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the next year/period are discussed in note 23.

(c) Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries and the Predecessor Entity.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and transactions and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in

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preparing the Financial Information. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Business combination under common control

Business combinations arising from transfers of businesses that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements.

(e) Foreign currency

Foreign currency transactions are translated at the foreign exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statements.

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

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(f) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see note 2(l)).

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the income statements as an expense as incurred.

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(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

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

The useful lives and residual values of assets are reassessed annually.

(iv) Retirement and disposal

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statements on the date of retirement or disposal.

(g) Lease prepayments

Lease prepayments represent payments made to acquire land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2(I)). Amortisation is charged to the income statements on a straight-line basis over the lease terms.

(h) Plantation assets

Plantation assets comprise forest crop in mainland China.

Plantation assets are stated at fair value less costs to sell, with any resultant gain or loss recognised in the income statements. Costs to sell include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market.

The fair value of plantation assets is determined independently by professional valuers.

(i) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment allowance for doubtful receivables (see note 2(I)). An impairment allowance for doubtful receivables is recognised based upon the evaluation of the recoverability of these receivables at the balance sheet date.

(j) 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.

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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 (see note 2(h)).

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, which is included in "reversal of fair value of plantation assets upon logging and sale of the plantation assets" in the accompanying income statements. 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.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statements of cash flows.

(l) Impairment

(i) Impairment of other receivables

Other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

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

If any such evidence exists, for other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where the assets carried at amortised cost share similar risk characteristics,

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such as similar past due status, and have not been individually assessed as impaired. Future cash flows for the assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

(ii) Impairment of other assets

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

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

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a favourable change in the estimates used to determine the recoverable amount.

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A reversal of an impairment loss is limited to the assets' carrying amount that would have been determined had no impairment loss been recognised in prior years/ periods. Reversals of impairment losses are credited to income statements in the year/period in which the reversals are recognised.

(m) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses and the cost of non-monetary benefits are accrued in the year/period in which the associated services are rendered by employees of the Group.

(ii) Defined contribution retirement schemes

Obligations for contributions to defined contribution retirement schemes are recognised as an expense in the income statements as incurred.

(iii) Share-based payments

The fair value of benefits in connection with the transfer of shares to employees by a shareholder for services rendered to the Group is recognised as staff costs 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 the employees entitled to the benefits immediately at the grant date the total amount of benefits is recognised immediately at that date.

Pursuant to the written resolutions of the shareholders of the Company passed on 23 September 2008, the Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are set out in Appendix VII to the document.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

(o) Trade and other payables

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

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(p) Revenue

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statements as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised in the income statements when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(q) Operating lease payments

Payments made under operating leases are recognised in the income statements on a straight-line basis over the terms of the respective leases. Lease incentives received are recognised in the income statements as an integral part of the total lease expense.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statements except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years/periods.

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

(s) Related parties

For the purposes of this Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

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- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member or such an individual, or is an entity under the control, joint control or significant influence or such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

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

During the Relevant Period, except for remuneration to key management stated in notes 9 and 10, payable to the Chairman of the Company stated in note 17 and the share transfers to two directors, Li Han Chun and Huang Fan, stated in note 24, the Group has no transaction with its related parties. Therefore, no disclosure of material related party transactions is presented.

(t) Segment reporting

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

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

For each of the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, the directors consider that the Group operated in a single operating segment. Accordingly, no segmental analysis has been presented.

3 Turnover

The principal activities of the Group are the management of forests and sale of timber logs in the PRC.

Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts. Pursuant to tax notices from Beijing State Tax Bureau, the applicable value added tax rate for the Predecessor Entity was 4% for the Relevant Period. Subsequent to the consummation of the transfer of the timber and forestry related businesses are set out in note 1, the applicable value added tax rate is

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13% according to Cai Shui [1994] No. 4 issued by the Ministry of Finance and the State Administration of Taxation of the PRC.

The Group's customer base includes three, five and nil and four customers with whom transactions have exceeded 10% of the Group's revenues for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 respectively. In the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, revenues from sale of timber logs in the PRC to these customers amounted to approximately RMB61,494,231, RMB136,811,538, RMB nil and RMB174,350,097.

Details of concentrations of credit risk arising from these customers are set out in note 22(b).

4 Staff costs

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB (unaudited)	RMB
Salaries, wages and other benefits	3,102,935	3,176,534	9,133,319	2,631,746	4,862,583
Contributions to defined contribution retirement schemes	313,699	342,960	507,892	201,731	787,927
Equity-settled share-based payment expenses (see note 18)	—	—	88,556,933	88,556,933	—
	<u>3,416,634</u>	<u>3,519,494</u>	<u>98,198,144</u>	<u>91,390,410</u>	<u>5,650,510</u>

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes ("the Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of 20% of the eligible employees' salaries. Contributions to the Schemes vest immediately.

The Group operates a Mandatory Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the Jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the Group and its employees are each required to make relevant contributions, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

Save for the above schemes, the Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

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5 Net financing income/(expenses)

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB (unaudited)	RMB
Interest income earned from deposits with bank	149,624	174,094	1,480,623	384,110	176,309
Interest paid on payable for forest acquisition (see note 17)	—	—	(3,854,221)	—	(55,979,169)
	<u>149,624</u>	<u>174,094</u>	<u>(2,373,598)</u>	<u>384,110</u>	<u>(55,802,860)</u>

6 Income tax

- (a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the Relevant Period.
- (c) Pursuant to the tax notice, Cai Shui [2001] No. 171, the entity in the PRC is not liable to income tax for the years ended 31 December 2006 and 2007 because the income of this entity is derived from the forestry business.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which took effect on 1 January 2008. From 1 January 2008, the corporate income tax rate was adjusted to the standard rate of 25% with effect from 1 January 2008. Pursuant to section 27 of the new tax law and section 86 of the Implementation Regulations of the new tax law, the entity's income derived from forestry business is exempt from income tax.

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The Enterprise Income Tax rate of the PRC was 33% up to 31 December 2007 and adjusted to 25% since 1 January 2008. Profits Tax rate of Hong Kong up to fiscal year 2007/08 was 17.5% and adjusted to 16.5% with effect from the fiscal year 2008/09. The following is a reconciliation between tax expense and accounting profit at applicable tax rate:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB (unaudited)	RMB
Profit before taxation	339,755,881	783,729,340	5,881,774,698	5,231,210,936	432,070,640
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	112,119,441	258,694,618	1,492,872,022	1,329,797,937	108,089,210
Tax effect of tax exemption	(112,119,441)	(258,700,263)	(1,493,040,512)	(1,329,919,857)	(107,962,791)
Tax effect of non-taxable income	—	—	—	—	(126,419)
Tax effect of unused tax losses not recognised	—	5,645	168,490	121,920	—
Actual tax expense	—	—	—	—	—

Under the new tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 are subject to the above-mentioned withholding tax. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future. The aggregate amounts of temporary differences associated with undistributed retained earnings and the related deferred tax liabilities which were not recognised because distribution of earnings was not expected in the foreseeable future amount to RMB7,456,265,952 and RMB372,813,298 respectively as at 30 June 2009 (31 December 2008: RMB7,022,603,258 and RMB351,130,163 respectively).

7 Dividends

No dividend has been paid or declared by the Group since its incorporation.

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8 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2008 and 2009 and the 2,250,000,000 shares in issue and issuable, comprising 35,565,217 ordinary shares in issue as at the date of the document, 2,214,434,783 ordinary shares to be issued as set out in Appendix VII to the document as if the shares were outstanding throughout the entire Relevant Period.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted earnings per share are not presented.

9 Directors' remuneration

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payment	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Year ended						
31 December 2006						
Executive directors						
Li Kwok Cheong	—	—	—	—	—	—
Li Han Chun	—	318,748	—	19,016	—	337,764
Huang Fan	—	—	—	—	—	—
Total	—	318,748	—	19,016	—	337,764

	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payment	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Year ended						
31 December 2007						
Executive directors						
Li Kwok Cheong	—	—	—	—	—	—
Li Han Chun	—	380,966	—	21,164	—	402,130
Huang Fan	—	—	—	—	—	—
Total	—	380,966	—	21,164	—	402,130

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	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payment	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Year ended						
31 December						
2008						
Executive directors						
Li Kwok Cheong	—	—	—	—	—	—
Li Han Chun	—	480,000	1,000,000	23,354	88,556,933	90,060,287
Huang Fan (retired on 4 March 2008)	—	—	—	—	—	—
Sub-total	—	480,000	1,000,000	23,354	88,556,933	90,060,287
Non-executive directors						
Xiao Feng (appointed on 8 January 2008)	—	—	—	—	—	—
Sean Xing He (appointed on 8 January 2008 and retired on 4 March 2008)	—	—	—	—	—	—
Li Zhi Tong (appointed on 3 April 2008)	—	—	—	—	—	—
Liu Hai Yan (appointed on 3 April 2008)	—	—	—	—	—	—
Wang Tak-jun (appointed on 3 April 2008)	—	—	—	—	—	—
Liu Can (appointed on 11 August 2008)	—	—	—	—	—	—
Wang Wei Ying (appointed on 11 August 2008)	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—
Total	—	480,000	1,000,000	23,354	88,556,933	90,060,287

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	Fees	Basic salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payment	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Period ended 30 June 2008 (unaudited)						
Executive directors						
Li Kwok Cheong	—	—	—	—	—	—
Li Han Chun	—	250,827	—	10,827	88,556,933	88,818,587
Huang Fan (retired on 4 March 2008)	—	—	—	—	—	—
Sub-total	—	250,827	—	10,827	88,556,933	88,818,587
Non-executive directors						
Xiao Feng (appointed on 8 January 2008)	—	—	—	—	—	—
Sean Xing He (appointed on 8 January 2008 and retired on 4 March 2008)	—	—	—	—	—	—
Li Zhi Tong (appointed on 3 April 2008)	—	—	—	—	—	—
Liu Hai Yan (appointed on 3 April 2008)	—	—	—	—	—	—
Wang Tak-jun (appointed on 3 April 2008)	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—
Total	—	250,827	—	10,827	88,556,933	88,818,587
	RMB	RMB	RMB	RMB	RMB	RMB
Period ended 30 June 2009						
Executive directors						
Li Kwok Cheong	—	—	—	—	—	—
Li Han Chun	—	534,755	—	12,686	—	547,441
Sub-total	—	534,755	—	12,686	—	547,441
Non-executive directors						
Xiao Feng	—	—	—	—	—	—
Li Zhi Tong	—	—	—	—	—	—
Liu Hai Yan (retired on 31 March 2009)	—	—	—	—	—	—
Wang Tak-jun	—	—	—	—	—	—
Liu Can	—	—	—	—	—	—
Wang Wei Ying	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—
Total	—	534,755	—	12,686	—	547,441

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No emoluments have been paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period. No director waived or agreed to waive any emoluments during the Relevant Period.

In the early stage of operation, Li Kwok Cheong, the Chairman of the Company volunteered not to receive any remuneration during the Relevant Period in order to maintain sufficient funds for the Group's daily operations and future development.

10 Individuals with highest emoluments

The five highest paid individuals of the Group include one director for each of the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009 respectively whose emoluments are disclosed in note 9. Details of emoluments paid to the remaining highest paid individuals of the Group are as follows:

	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB	RMB
				(unaudited)	
Basic salaries, allowances and benefits in kind	575,969	671,684	1,212,500	523,874	863,640
Discretionary bonuses	—	—	300,000	—	—
Retirement scheme contributions . . .	76,063	84,658	86,062	41,504	42,464
	<u>652,032</u>	<u>756,342</u>	<u>1,598,562</u>	<u>565,378</u>	<u>906,104</u>

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

	Number of individuals				
	Years ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB	RMB	RMB	RMB	RMB
				(unaudited)	
RMB Nil to RMB1,004,670 (equivalent to HK\$Nil to HK\$1,000,000)	4	—	—	—	—
RMB Nil to RMB936,380 (equivalent to HK\$Nil to HK\$1,000,000)	—	4	—	—	—
RMB Nil to RMB881,890 (equivalent to HK\$Nil to HK\$1,000,000)	—	—	4	—	—
RMB Nil to RMB905,044 (equivalent to HK\$Nil to HK\$1,000,000)	—	—	—	4	—
RMB Nil to RMB881,530 (equivalent to HK\$Nil to HK\$1,000,000)	—	—	—	—	4

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period.

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11 Property, plant and equipment, net

	Leasehold improvement	Office equipment	Furniture and fittings	Motor vehicles	ERP system	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Cost:						
At 1 January 2006	—	383,002	160,575	—	—	543,577
Additions	—	139,132	264,474	—	—	403,606
At 31 December 2006 ...	—	522,134	425,049	—	—	947,183
At 1 January 2007	—	522,134	425,049	—	—	947,183
Additions	—	26,205	—	—	—	26,205
At 31 December 2007 ...	—	548,339	425,049	—	—	973,388
At 1 January 2008	—	548,339	425,049	—	—	973,388
Additions	121,035	257,592	356,680	314,677	6,221,805	7,271,789
Disposals	—	(567,021)	(630,096)	—	—	(1,197,117)
At 31 December 2008 ...	121,035	238,910	151,633	314,677	6,221,805	7,048,060
At 1 January 2009	121,035	238,910	151,633	314,677	6,221,805	7,048,060
Additions	—	85,003	18,136	365,368	1,501,540	1,970,047
At 30 June 2009	121,035	323,913	169,769	680,045	7,723,345	9,018,107
Accumulated depreciation:						
At 1 January 2006	—	154,266	32,138	—	—	186,404
Charge for the year	—	88,946	68,915	—	—	157,861
At 31 December 2006 ...	—	243,212	101,053	—	—	344,265
At 1 January 2007	—	243,212	101,053	—	—	344,265
Charge for the year	—	104,663	81,609	—	—	186,272
At 31 December 2007 ...	—	347,875	182,662	—	—	530,537
At 1 January 2008	—	347,875	182,662	—	—	530,537
Charge for the year	60,518	65,048	99,564	4,982	—	230,112
Disposals	—	(392,125)	(271,553)	—	—	(663,678)
At 31 December 2008 ...	60,518	20,798	10,673	4,982	—	96,971
At 1 January 2009	60,518	20,798	10,673	4,982	—	96,971
Charge for the period ...	60,517	27,033	15,560	26,519	—	129,629
At 30 June 2009	121,035	47,831	26,233	31,501	—	226,600
Net book value:						
At 31 December 2006 ...	—	278,922	323,996	—	—	602,918
At 31 December 2007 ...	—	200,464	242,387	—	—	442,851
At 31 December 2008 ...	60,517	218,112	140,960	309,695	6,221,805	6,951,089
At 30 June 2009	—	276,082	143,536	648,544	7,723,345	8,791,507

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12 Lease prepayments

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	RMB
Cost:				
At 1 January	4,253,230	11,045,587	32,596,582	231,870,305
Additions	6,792,357	21,550,995	199,286,556	—
Disposals	—	—	(12,833)	—
At 31 December/30 June ...	<u>11,045,587</u>	<u>32,596,582</u>	<u>231,870,305</u>	<u>231,870,305</u>
Accumulated amortisation:				
At 1 January	152,927	403,774	1,128,136	6,043,526
Charge for the year/period	250,847	724,362	4,916,734	3,861,236
Disposals	—	—	(1,344)	—
At 31 December/30 June ...	<u>403,774</u>	<u>1,128,136</u>	<u>6,043,526</u>	<u>9,904,762</u>
Net book value:				
A 31 December/30 June ...	<u>10,641,813</u>	<u>31,468,446</u>	<u>225,826,779</u>	<u>221,965,543</u>

Lease prepayments represent land use rights granted to the Group in respect of its plantation assets in the PRC, which expire during the period from 2016 to 2072. Usage of the land is regulated by the Implementation Regulations of PRC Forest Law issued by the State Council of the PRC.

13 Plantation assets

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	RMB
At 1 January	241,900,000	566,900,000	1,338,200,000	7,693,000,000
Additions (note (i))	29,165,077	93,597,794	714,986,766	489,249
Harvested timber transferred to inventories	(54,664,587)	(120,778,833)	(384,519,909)	(298,357,270)
Changes in fair value less costs to sell (note (ii))	350,499,510	798,481,039	6,024,364,199	518,868,021
Disposal of plantation assets	—	—	(31,056)	—
At 31 December/30 June	<u>566,900,000</u>	<u>1,338,200,000</u>	<u>7,693,000,000</u>	<u>7,914,000,000</u>

Notes:

(i) The additions represent the consideration paid for the acquisitions of forests (excluding the land use rights) and the value of tree saplings planted during the year. The consideration of individual acquisition is agreed on a negotiation basis.

(ii) Changes in fair value less costs to sell include changes upon initial acquisition of the plantation assets and changes during the year.

The changes in fair value less costs to sell upon initial acquisition of the plantation assets represent the difference between the acquisition cost and the value of the new plantation assets at the date of acquisition.

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The changes in fair value less costs to sell during the year represent the aggregate of the difference between the value of the existing plantation assets as of the beginning and end of the financial year and the difference between the value of the new plantation assets as of the second day of acquisition and end of the financial year/period.

As mentioned in note 23, Chandler Fraser Keating Limited ("CFK") has applied the net present value approach which requires a number of key assumptions and estimated in determining the fair value of the plantation assets. CFK and management review these assumptions and estimates periodically to identify any significant change in the fair value. Details of CFK have been set out in the paragraph below.

During the year ended 31 December 2008, the professional valuer and the Group revised the estimated yield of the plantation assets based on the recent harvest information and latest forest survey data. This revision in estimated yield resulted in an estimated lower woodflow from the plantation assets in future periods and a decrease in the fair value of plantation assets as at 31 December 2008 of RMB584,000,000, which has been recognised in the year ended 31 December 2008.

The Group's principal activities are the management of forests and sale of timber logs in the PRC. The Group acquired the forests from individual farmers who are employed to manage the corresponding forests after the acquisition. The related wages and other benefits have been disclosed as part of the staff costs in note 4.

At 31 December 2006, 2007, 2008 and 30 June 2009, plantation assets represent standing timber acquired, planted and managed by the Group and comprise approximately 4,603, 12,453, 171,780 and 171,780 hectares of tree plantations respectively. The existing tree plantations on 171,780 hectares forests range from 20 to 24 years old. During the years ended 31 December 2006, 2007, 2008 and the six months ended 30 June 2009, the Group harvested approximately 75,909, 169,329, 519,928 and 356,730 cubic metres of wood, which had a fair value less costs to sell of RMB54,664,587, RMB120,778,833, RMB384,519,909 and RMB298,357,270 respectively at the date of harvest.

The Group's plantation assets in the PRC were independently valued by CFK. CFK is a privately owned specialist forest consulting firm headquartered in New Zealand. In view of the non-availability of market value for trees in the PRC, CFK has applied the net present value approach whereby projected future net cash flows, based on its assessment of current timber log prices, were discounted at the rates of 9.0% to 13.0% (31 December 2006 and 2007: 9.0%, 31 December 2008: 9.0% to 13.0%) for plantation assets for each of the years and the period applied to pre-tax cash flows to provide a current market value of the plantation assets.

The principal valuation methodology and assumptions adopted are as follows:

- Stands are scheduled to be harvested at or near their optimum economic rotation age;
- The cash flows are those arising from the current rotation of trees only. No account was taken of revenues or costs from re-establishment following harvest, or of land not yet planted;
- The cash flows do not take into account income taxation and finance costs;

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- The cash flows have been prepared in real terms and have not therefore included inflationary effects;
- The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forest is not taken into account; and
- Costs are current average costs. No allowance has been made for cost improvements in future operations.

14 Inventories

An analysis of the amount of inventories recognised as an expense is as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	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	<u>684,176</u>	<u>346,409</u>	<u>—</u>	<u>20,407,485</u>
Carrying amount of inventories sold	<u>54,946,100</u>	<u>121,116,600</u>	<u>384,853,771</u>	<u>277,949,785</u>

15 Other receivables

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	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	<u>2,074,841</u>	<u>5,967,777</u>	<u>16,031,114</u>	<u>40,722,000</u>
	<u>6,238,089</u>	<u>21,329,976</u>	<u>37,580,311</u>	<u>58,612,384</u>

The Group enters into a number of insurance policies for its plantation assets and these policies typically run for a period of 1 year to 4 years. The amounts of the Group's 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.

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16 Cash and cash equivalents

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	RMB
Cash at bank and in hand	24,987,607	1,028,859	104,530,763	381,977,066

Cash and cash equivalents include cash at bank and in hand of RMB102,474,734 were held in the PRC as at 30 June 2009 (31 December 2008: RMB104,511,396). The conversion of RMB denominated balance into foreign currencies and the remittance of bank balances and cash out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

17 Other payables

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	RMB
Other payables and accrued expenses	2,316,474	2,269,073	50,329,769	107,402,752
Payable for forest acquisition	—	—	575,888,956	344,574,295
Payable to the Chairman of the Company	—	—	6,319,976	7,989,787
Receipts in advance	920,000	—	—	—
	<u>3,236,474</u>	<u>2,269,073</u>	<u>632,538,701</u>	<u>459,966,834</u>

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 100,000 hectares of forest in Yunnan Province, the PRC. Management plans to settle the amount from the Group's internal financial resources and proceeds from issue of shares by the Company pursuant to the resolutions in writing on 25 June 2007 as detailed in note 24.

Receipts in advance represent the amount of prepayment made by the customers for sales of timber logs.

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An ageing analysis of other payables (excluding receipts in advance) is as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	RMB
Due within 1 month or on demand	2,316,474	2,269,073	56,649,745	101,442,450
Due after 1 month but within 3 months	—	—	85,064,488	13,950,089
Due after 3 months but within 6 months	—	—	—	—
Due after 6 months but within 1 year . .	—	—	169,771,261	344,574,295
Due after 1 year but within 2 years . . .	—	—	321,053,207	—
	<u>2,316,474</u>	<u>2,269,073</u>	<u>632,538,701</u>	<u>459,966,834</u>

The Group obtained a non-banking credit facility of not more than RMB1,000 million from Shenzhen Development Bank. Drawdown of the facility is subject to bank's assessment and approval. The facility is valid during the period from September 2008 to September 2011. Up to the balance sheet date, the Group has not drawdown on the facility.

18 Equity-settled share-based transaction

Li Han Chun, the director and Chief Executive Officer of the Company, joined the Company in 2004. In order to recognise the contribution of Li Han Chun to the Group, the Chairman transferred an aggregate of 3,200,000 shares ("share transfer") at a cash consideration of USD32,000,000 to Li Han Chun on 31 March 2008. The consideration of USD32,000,000 was determined by reference to the transactions with certain independent foreign investors as set out in note 24. Li Han Chun made a payment of USD2,000,000 to the Chairman on 31 March 2008. As a result of the transfer, Top Wisdom Overseas Holdings Limited, a company wholly owned by Li Han Chun, became a shareholder of the Company and is eligible to the dividend and voting rights of these shares. There are no terms and conditions in connection with any future services of Li Han Chun attached to the share transfer.

Following the share transfer, the above parties signed a supplemental agreement ("supplemental agreement") which provides for the settlement of the remaining USD30,000,000 in cash in 8 annual instalments commencing on 31 December 2010 with no interest charge, but in return Li Han Chun is required to pledge the 1,066,667 acquired shares to the Chairman. Pursuant to the supplemental agreement, the Chairman has a full recourse of the loan from Li Han Chun in case of default in repayment. Given the terms and conditions set out in the share transfer arrangement and supplemental agreement, the benefits of RMB88,556,933 in connection with the share transfer, being the difference of the fair value of shares transferred and the present value of consideration paid and payable by Li Han Chun, were accounted for as a share-based payment and recognised as staff costs on 31 March 2008.

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19 Capital and reserves

	Note	Share capital RMB (note (a))	Share premium RMB (note (b))	Statutory surplus reserve RMB (note (c))	Statutory public welfare fund RMB (note (d))	Capital reserve RMB (note (e))	Exchange reserve RMB (note (f))	Retained earnings RMB	Total equity RMB
At 1 January 2006 ...		10,000,000	—	5,000,000	11,706,923	—	—	240,355,324	267,062,247
Incorporation	1	—	—	—	—	—	—	—	1
Total comprehensive income for the year		—	—	—	—	—	—	339,755,881	339,755,881
Transfer in/(out)		—	—	11,706,923	(11,706,923)	—	—	—	—
At 31 December 2006		10,000,001	—	16,706,923	—	—	—	580,111,205	606,818,129
At 1 January 2007 ...		10,000,001	—	16,706,923	—	—	—	580,111,205	606,818,129
Reorganisation	(1)	—	—	—	—	—	—	—	(1)
Total comprehensive income for the year		—	—	—	—	—	—	783,729,340	783,729,340
At 31 December 2007		10,000,000	—	16,706,923	—	—	—	1,363,840,545	1,390,547,468
At 1 January 2008 ...		10,000,000	—	16,706,923	—	—	—	1,363,840,545	1,390,547,468
Share issued	24	232,245	247,886,109	—	—	—	—	—	248,118,354
Payment to shareholder upon reorganisation		(10,000,000)	—	(16,706,923)	—	—	—	(146,667,068)	(173,373,991)
Equity-settled share-based transaction	18	—	—	—	—	88,556,933	—	—	88,556,933
Appropriation to statutory reserve		—	—	170,865,000	—	—	—	(170,865,000)	—
Total comprehensive income for the year		—	—	—	—	—	(273,221)	5,881,774,698	5,881,501,477
At 31 December 2008		232,245	247,886,109	170,865,000	—	88,556,933	(273,221)	6,928,083,175	7,435,350,241
At 1 January 2009 ...		232,245	247,886,109	170,865,000	—	88,556,933	(273,221)	6,928,083,175	7,435,350,241
Share issued	24	24,361	280,120,409	—	—	—	—	—	280,144,770
Total comprehensive income for the period		—	—	—	—	—	(1,778,500)	432,070,640	430,292,140
At 30 June 2009		256,606	528,006,518	170,865,000	—	88,556,933	(2,051,721)	7,360,153,815	8,145,787,151
(unaudited)									
At 1 January 2008 ...		10,000,000	—	16,706,923	—	—	—	1,363,840,545	1,390,547,468
Share issued	24	232,245	247,886,109	—	—	—	—	—	248,118,354
Equity-settled share-based transaction	18	—	—	—	—	88,556,933	—	—	88,556,933
Total comprehensive income for the period		—	—	—	—	—	(3,130,037)	5,231,210,936	5,228,080,899
At 30 June 2008		10,232,245	247,886,109	16,706,923	—	88,556,933	(3,130,037)	6,595,051,481	6,955,303,654

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Notes:

(a) Authorised and issued share capital

For the purpose of this Financial Information, share capital at 31 December 2006, 2007, 2008 and 30 June 2009 represents the aggregate of the share capital of the companies comprising the Group. The issue of a new share in 2006 relates to a company comprising the Group upon its incorporation and this share is not fully paid. The movement of share capital in 2007 and 2008 represent elimination as a result of the group reorganisation. The shares issued in 2008 and June 2009 represent issue of Company's new shares to its investors. Details of the issue of shares are stated in note 24.

	31 December				30 June			
	2006		2007		2008		2009	
	No. of shares	Amount	No. of shares	Amount	No. of shares	Amount	No. of shares	Amount
<i>Authorised:</i>								
Beijing Zhaolin Forestry Development Co., Ltd.	N/A	RMB10,000,000	N/A	RMB10,000,000	—	—	—	—
China Zhaoneng Group Limited	10,000	HKD 10,000	—	—	—	—	—	—
China Forestry Holdings Co., Ltd.	—	—	5,000,000	USD 50,000	100,000,000,000	USD100,000,000	100,000,000,000	USD100,000,000
<i>Ordinary shares issued:</i>								
Beijing Zhaolin Forestry Development Co., Ltd.								
— fully paid	N/A	RMB10,000,000	N/A	RMB10,000,000	—	—	—	—
China Zhaoneng Group Limited								
— not fully paid	1	HKD 1	—	—	—	—	—	—
China Forestry Holdings Co., Ltd.								
— not fully paid	—	—	1	USD 0.01	28,500,000	USD 28,500	28,500,000	USD 28,500
— fully paid	—	—	—	—	3,500,000	USD 3,500	7,065,217	USD 7,065

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(b) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. The application of the share premium account is governed by the Companies Law of the Cayman Islands. The share premium is distributable.

(c) Statutory surplus reserve

The Group is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC (collectively 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.

(d) Statutory public welfare fund

Prior to 1 January 2006, the Group is required to appropriate 5% to 10% of its net profit, as determined under the PRC GAAP, to the statutory public welfare fund. In accordance with the Company Law of the PRC (Revised in 2005), which was effective from 1 January 2006, the Group was no longer required to make further appropriations to the statutory public welfare fund with effect from 1 January 2006.

In 2006, the Group transferred the balance of the statutory public welfare fund of RMB11,706,923 as at 31 December 2005 to the statutory surplus reserve fund in accordance with a notice, Cai Qi [2006] No. 67, issued by the Ministry of Finance of the PRC on 15 March 2006.

(e) Capital reserve

Capital reserve represents the difference between the fair value of shares transferred and the present value of consideration payable for the equity-settled share-based transaction.

(f) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(e).

(g) Capital management

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

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

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

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20 Note to the consolidated statements of cash flows

Reconciliation of profit before taxation to net cash generated from operations:

	Years ended 31 December			Six months ended 30 June	
	2006 RMB	2007 RMB	2008 RMB	2008 RMB (unaudited)	2009 RMB
Operating activities					
Profit before taxation . . .	339,755,881	783,729,340	5,881,774,698	5,231,210,936	432,060,640
Adjustments for:					
- 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
- Changes in fair value of plantation assets less costs to sell	(350,499,510)	(798,481,039)	(6,024,364,199)	(5,338,423,862)	(518,868,021)
- Depreciation expenses	157,861	186,272	230,112	72,300	129,629
- Gain on disposal of plantation assets	—	—	(32,255)	(32,255)	—
- Loss on disposal of fixed assets	—	—	533,439	8,000	—
- Share-based payment	—	—	88,556,933	88,556,933	—
- Interest expense	—	—	3,854,221	—	55,979,169
- Interest income	(149,624)	(174,094)	(1,480,623)	(384,110)	(176,309)
Operating loss before changes in working capital	(9,691,069)	(11,932,095)	(36,081,785)	(14,343,405)	(17,266,741)
Decrease in inventories harvested timber transferred to inventories (Note)	54,946,100	121,116,600	384,866,318	85,801,879	277,949,785
Increase in other receivables	(4,073,941)	(12,174,952)	(26,452,712)	(34,900,042)	(32,547,488)
Increase/(decrease) in other payables	2,309,836	(967,401)	54,261,036	11,305,618	56,752,005
Net cash generated from operating activities	43,490,926	96,042,152	376,592,857	47,864,050	284,887,561

Note:

This item includes (i) harvest timber transferred to inventories as disclosed in note 13; and (ii) changes in inventories.

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21 Commitments and contingent liabilities

(a) Capital commitments

At 31 December 2006, 2007, 2008 and 30 June 2009, the Group had capital commitments for as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	RMB	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	—	—	30,000,000	30,000,000
	—	532,000,000	62,001,270	1,462,001,270

(b) Future minimum lease payments under non-cancellable operating leases

At 31 December 2006, 2007, 2008 and 30 June 2009, the total future minimum lease payments payable under non-cancellable operating leases are as follows:

	31 December			30 June
	2006	2007	2008	2009
	RMB	RMB	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

The Group is the lessee in respect of a number of properties held under operating leases. The 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.

(c) Contingent liabilities

Environmental contingencies

The Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment and wild life have generally become more stringent in recent years and could become even more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group for violations whether or not caused or known by the Group. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors are not aware of any environmental liabilities as at 31 December 2006, 2007, 2008 and 30 June 2009.

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Obligation to replant

The Group is obligated to replant at least 100% of the crops harvested. During the Relevant Period, the saplings were provided by local forestry authorities free of charge. The Group is obligated to replant the tree crops even if the forestry authorities do not provide the saplings. In such case, there will be a potential cost incurred by the Group.

22 Financial instruments

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

- (i) ensuring that appropriate funding strategies are adopted to meet the Group's short term and long term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group;
- (ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding; and
- (iii) ensuring that credit risks on sales to customers are properly managed.

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

(b) Credit risk

The Group's credit risk is primarily attributable to sales. Most of the Group's customers are requested to pay in full before taking delivery of the timber logs. The credit risk of the Group is considered insignificant.

(c) Currency risk

The Group's operations and assets are all in the PRC. The revenue generated from sales of timber is all denominated in Renminbi for each of the years ended 31 December 2006, 2007, 2008 and 30 June 2009. The Group's exposure to currency risk is considered insignificant.

Some of the Group's assets and liabilities were denominated in foreign currencies. The Group did not have hedging measure against currency risk arising from recognised assets and liabilities during the Relevant Period.

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The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate:

	31 December						30 June	
	2006		2007		2008		2009	
	USD	HKD	USD	HKD	USD	HKD	USD	HKD
Other receivables ...	—	—	—	—	129,400	7,919,693	508,723	29,726,866
Cash and cash equivalents	—	—	—	—	8,498,907	21,948	48,619,023	45,346
Other payables	—	—	—	—	(7,688)	(7,862,461)	(151,467)	(24,101,002)
Overall net exposure	—	—	—	—	8,620,619	79,180	48,976,279	5,671,210

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	31 December						30 June	
	2006		2007		2008		2009	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
USD ...	5%	N/A	5%	N/A	5%	2,945,924	5%	16,079,391
	(5)%	N/A	(5)%	N/A	(5)%	(2,945,924)	(5)%	(16,079,391)
HKD ...	5%	N/A	5%	N/A	5%	3,491	5%	24,997
	(5)%	N/A	(5)%	N/A	(5)%	(3,491)	(5)%	(24,997)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

(d) Interest rate risk

The Group has not borrowed any loans from banks or other parties. Furthermore, the Group has not invested in any interest bearing securities. Any excess cash and cash equivalents of the Group are deposited at bank to earn short-term market interest rates. The risk arising from unexpected adverse interest rate movements is considered insignificant.

(e) Liquidity risk

The directors of the Group have carried out a detailed review of the cash flow forecast of the Group for the year ending 31 December 2009. Based on such forecast, the directors have determined that adequate liquidity exists to finance the working capital

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and capital expenditure requirements of the Group during that period. The directors are of the opinion 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.

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

31 December 2006				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year	From 1 year to 2 years
	RMB	RMB	RMB	RMB
Financial liabilities				
- Other payables	3,236,474	3,236,474	3,236,474	—
31 December 2007				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year	From 1 year to 2 years
	RMB	RMB	RMB	RMB
Financial liabilities				
- Other payables	2,269,073	2,269,073	2,269,073	—
31 December 2008				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year	From 1 year to 2 years
	RMB	RMB	RMB	RMB
Financial liabilities				
- Other payables	632,538,701	710,963,575	343,943,575	367,020,000
30 June 2009				
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year	From 1 year to 2 years
	RMB	RMB	RMB	RMB
Financial liabilities				
- Other payables	459,966,834	482,412,539	482,412,539	—

(f) Natural risk

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by application from the local forestry authorities. Other than the above-mentioned quotas, the Group's revenue also depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. Weather conditions such as floods,

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droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The Group is insured to protect the forests against certain unfavourable local weather conditions and natural disasters. However, the occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting, or otherwise impede the Group's logging operations or the growth of the trees in the forests.

(g) Fair values

Recognised financial instruments

In respect of cash and cash equivalents, other receivables, and other payables, the carrying amounts approximate their fair values due to the relatively short term nature of these financial instruments.

23 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Fair value of plantation assets

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

(b) Net realisable value of inventories

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

(c) Useful lives of property, plant and equipment

The management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on historical experience of the actual useful lives of assets of similar nature and functions. It could

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change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Taxation

Determining tax provisions, including value added tax provision, involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account changes in tax legislations.

24 The Company's balance sheet

	<u>Note</u>	<u>31 December 2008</u>	<u>30 June 2009</u>
		<u>RMB</u>	<u>RMB</u>
Non-current assets			
Investments in subsidiaries	(i)	21	21
Total non-current assets		<u>21</u>	<u>21</u>
Current assets			
Other receivables		194,785	194,261
Amount due from subsidiary		239,209,576	518,028,609
Total current assets		<u>239,404,361</u>	<u>518,222,870</u>
Total assets		<u>239,404,382</u>	<u>518,222,891</u>
Current liabilities			
Amounts due to subsidiaries		21	21
Other payables and accrued expenses		63,756	64,054
Total current liabilities		<u>63,777</u>	<u>64,075</u>
Equity			
Share capital	(ii)	232,245	256,606
Reserves	(iii)	239,108,360	517,902,210
Total equity		<u>239,340,605</u>	<u>518,158,816</u>
Total liabilities and equity		<u>239,404,382</u>	<u>518,222,891</u>

Notes:

- (i) Investments in subsidiaries are stated at cost and details of the subsidiaries at 30 June 2009 are set out in note 25.

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(ii) Share capital comprises:

	Number of shares	USD
At 1 January 2008	1	0.01
Share split	9	—
Shares issued	31,999,990	31,999.99
At 31 December 2008	<u>32,000,000</u>	<u>32,000.00</u>
At 1 January 2009	32,000,000	32,000.00
Shares issued	<u>3,565,217</u>	<u>3,565.22</u>
At 30 June 2009	<u>35,565,217</u>	<u>35,565.22</u>

(iii) 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.

The Company was incorporated in the Cayman Islands on 21 December 2007 as an exempted company with authorised share capital of USD50,000, comprising 5,000,000 ordinary shares of USD0.01 each. One share was allotted and issued to Kingfly Capital Limited as subscriber share on 21 December 2007. Li Kwok Cheong is the sole shareholder of Kingfly Capital Limited. This share was not fully paid.

Pursuant to resolutions in writing on 8 January 2008, every share of USD0.01 in the issued and unissued share capital of the Company was subdivided into 10 shares of USD0.001 each. The Company had authorised share capital of USD50,000 divided into 50,000,000 shares of USD0.001 each. The issued and not fully paid share capital of USD0.01 held by Kingfly Capital Limited was divided into 10 shares of USD0.001 each.

On 8 January 2008, Kingfly Capital Limited increased its shareholding in the Company by subscribing for 28,499,990 new shares of USD0.001 each at par.

Pursuant to resolutions in writing on 8 January 2008, Kingfly Capital Limited transferred 480,825 shares and 19,175 shares to Carlyle Asia Growth Partners III, L.P. and CAGP III Coinvestment, L.P. respectively at a total consideration of USD5,000,000. In addition, the Company issued 288,495 shares and 11,505 shares to Carlyle Asia Growth Partners III, L.P. and CAGP III Coinvestment, L.P. respectively at a total consideration of USD3,000,000 on 8 January 2008. The consideration for the acquisition and subscription of shares was determined on an arm's length negotiations and settled on 9 January 2008.

Pursuant to resolutions in writing on 18 March 2008, the Company issued 3,077,280 shares and 122,720 shares to Carlyle Asia Growth Partners III, L.P. and CAGP III Coinvestment, L.P. respectively at a total consideration of USD32,000,000. The consideration was determined on an arm's length negotiations and settled on 26 March 2008.

Pursuant to the Share Purchase Agreement and Instrument of Transfer entered into between Kingfly Capital Limited and Li Han Chun on 18 March 2008, Kingfly Capital Limited transferred 3,200,000 shares to Li Han Chun at a total consideration of USD32,000,000. Pursuant to the approval of the board of directors of the Company on 31 March 2008, Top Wisdom Overseas Holdings Limited holds the transferred 3,200,000 shares and Li Han Chun is the sole shareholder of Top Wisdom Overseas Holdings Limited.

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Pursuant to the Share Purchase Agreement and Instrument of Transfer entered into between Kingfly Capital Limited and Huang Fan on 18 March 2008, Kingfly Capital Limited transferred 320,000 shares to Huang Fan at a total consideration of USD3,200,000. Pursuant to the approval of the board of directors of the Company on 31 March 2008, Victory Early Investments Limited holds the transferred 320,000 shares and Huang Fan is the sole shareholder of Victory Early Investments Limited.

After the reorganisation, the total number of shares issued by the Company was 32,000,000.

Pursuant to resolutions in writing on 23 September 2008, authorised share capital of the Company was increased from USD50,000 to USD100,000,000 by the creation of 99,950,000,000 shares of USD0.001, which rank pari passu with existing shares.

Pursuant to resolutions in writing on 25 June 2009, the Company issued 1,142,830 shares, 45,575 shares, 2,059,904 shares and 316,908 shares, an aggregate of 3,565,217 shares of US\$0.001 each, to Carlyle Asia Growth Partners III, L.P., CAGP III Coinvestment, L.P., Partners Group Access 119 L.P. and International Fund Management S.A. on account of IFM-Invest: 2 PrivateEquity respectively at a total consideration of USD40,999,996. The consideration was determined on an arm's length negotiations and settled on 30 June 2009.

Pursuant to the share purchase agreement and shareholders agreement entered into by and among Mr. Li Kwok Cheong, Kingfly Capital Limited, Mr. Li Hanchun, Top Wisdom Overseas Holdings Limited and the Company, Carlyle Asia Growth Partners III, L.P., CAGP III Coinvestment, L.P., Partners Group Access 119 L.P. and International Fund Management S.A. on account of IFM-Invest: 2 PrivateEquity on 25 June 2009, the Kingly Capital Limited transferred 69,685 shares, 2,779 shares, 125,604 shares and 19,324 shares to Carlyle Asia Growth Partners III, L.P., CAGP III Coinvestment, L.P., Partners Group Access 119 L.P. and International Fund Management S.A. on account of IFM-Invest: 2 PrivateEquity respectively at a total consideration of USD2,500,008 on even date. Pursuant to the same agreements mentioned above, Top Wisdom Overseas Holdings Limited transferred 41,811 shares, 1,667 shares, 75,362 shares and 11,594 shares to Carlyle Asia Growth Partners III, L.P., CAGP III Coinvestment, L.P., Partners Group Access 119 L.P. and International Fund Management S.A. on account of IFM-Invest: 2 PrivateEquity respectively at a total consideration of USD1,499,991 on 25 June 2009.

25 Particulars of subsidiaries

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries.

Ultra Big Investment Limited, China Zhaoneng Group Limited and Fine Fit Limited, Kunming Ultra Big Forestry Resource Development Co., Ltd. and Chengdu Yishang Forestry Resource Development Co., Ltd. are held indirectly by the Company through intermediate investment holding companies.

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The following are subsidiaries of the Company upon the completion of the Reorganisation:

<u>Name of company</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued share capital</u>	<u>Attributable equity interest %</u>	<u>Principal activities</u>
Profit Wise International Limited	British Virgin Islands, 7 November 2007	USD1	100	Investment holding
Sky Famous Limited	British Virgin Islands, 27 August 2007	USD1	100	Investment holding
Rich Fame International Limited	British Virgin Islands, 7 November 2007	USD1	100	Investment holding
Ultra Big Investment Limited	Hong Kong, 3 December 2007	HKD1	100	Investment holding
China Zhaoneng Group Limited	Hong Kong, 15 November 2006	HKD1	100	Investment holding
Fine Fit Limited	Hong Kong, 3 December 2007	HKD1	100	Investment holding
Kunming Ultra Big Forestry Resource Development Co., Ltd. (note (i))	The PRC, 7 March 2008	USD22,000,000	100	Forest management and sale of timber logs
Chengdu Yishang Forestry Resource Development Co., Ltd. (note (ii))	The PRC, 21 March 2008	USD10,000,000	100	Forest management and sale of timber logs

Notes:

- (i) The registered capital of Kunming Ultra Big Forestry Resource Development Co., Ltd. is USD50,000,000. The shareholder should pay USD28,000,000 of the remaining registered capital by 6 March 2009 according to the Company's article. On 14 August 2009, the Board has resolved and applied to the Administration of Industry and Commerce (昆明經濟技術開發區管理委員會) to extend the period for contribution of the remaining registered capital to within 2 years from the date of the issuance of the business license and amend the effective articles of association accordingly. On 17 August 2009, the Kunming Administration of Industry and Commerce has approved the extension of the period for payment of the remaining contribution of USD28,000,000 to within 2 years from the date of the issuance of the business license.
- (ii) The registered capital of Chengdu Yishang Forestry Resource Development Co., Ltd. is USD29,000,000. The shareholder should pay USD9,000,000 and USD10,000,000 of the remaining registered capital by 20 September 2008 and 20 March 2009 respectively according to the Company's article. On 23 March 2009, the Board has resolved and applied to the Administrative Examination and Approval Bureau of Wuhou District Chengdu City (成都市武侯區行政審批局) to extend the period for contribution of the remaining registered capital to within 2 years from the date of the issuance of the business license and amend the effective articles of association accordingly. On 29 April 2009, the Administrative Examination and Approval Bureau of Wuhou District Chengdu City has approved the extension for payment of the remaining contribution of USD19,000,000 to within 2 years from the date of the issuance of business license.

26 Particulars of predecessor entity

For the purpose of this report, the results of operations of timber and forestry related businesses of the Predecessor Entity for the Relevant Period have been included in the Group's consolidated income statements, consolidated statements of cash flows and consolidated statements of changes in equity for the Relevant Period. The state of affairs

APPENDIX I

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of the Predecessor Entity as at 31 December 2006 and 2007 have been included in the Group's consolidated balance sheets at the respective dates. The particulars of the Predecessor Entity are set out below:

<u>Name of Predecessor Entity</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued share capital</u>	<u>Attributable equity interest %</u>	<u>Principal activities</u>
Beijing Zhaolin Forestry Development Co., Ltd.	The PRC, 6 August 2001	RMB10,000,000	100	Forest management and sale of timber logs

Prior to January 2006, the Companies Law in the PRC required all limited liability companies to have at least 2 shareholders. Consequently, the Chairman entered into arrangements to entrust other independent third parties to hold the equity interest in the Predecessor Entity on his behalf. In these arrangements, (i) the Chairman was the one responsible for providing the funding to the other shareholders when they acquired the equity interest in the Predecessor Entity; (ii) the other shareholders confirmed that they had always acted in accordance with the instructions of the Chairman when voting in any shareholders' meeting or passing any shareholders' resolutions of the Predecessor Entity; and (iii) any income had always belonged to the Chairman. Therefore, the Chairman in substance controlled all the equity interests in the Predecessor Entity prior to 5 August 2007. On 5 August 2007, the Chairman entered into agreement with the entrusted independent third party to transfer the shares back to the Chairman and the Chairman has been the sole shareholder of the Predecessor Entity since then.

On 7 March 2008, the Group set up a wholly-foreign owned enterprise, Kunming Ultra Big Forestry Resource Development Co., Ltd. in Yunnan, the PRC. On 19 March 2008 and 17 April 2008, Kunming Ultra Big Forestry Resource Development Co., Ltd. entered into a forestry right transfer agreement and a supplemental agreement respectively with Beijing Zhaolin Forestry Resources Development Co., Ltd. to which Beijing Zhaolin Forestry Resources Development Co., Ltd. transferred all its forestry rights in Sichuan to Kunming Ultra Big Forestry Resource Development Co., Ltd. at a consideration of RMB122,428,723 as agreed on a negotiation basis and by reference to a valuation report prepared by an independent PRC valuer using current price method. The consideration has been settled in May 2008.

After the transfer of the timber and forestry related businesses with relevant assets and liabilities to the companies comprising the Group, the Predecessor Entity has been dissolved on 4 September 2008. The assets (including the retained earnings) of the Predecessor Entity are required to be distributed to such entitled persons (including its creditors and shareholder) and in such priority as prescribed under the PRC law. Given that the Group is not a creditor of a shareholder of the Predecessor Entity, it is not entitled to receive any assets of the Predecessor Entity from such distribution. The distribution of Predecessor Entity's assets with amount of RMB173,373,991 has been completed on 20 September 2008.

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27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 30 June 2009

Up to the date of issue of these Financial Information, the IASB has issued the following amendment and new standard which are not yet effective for the six months ended 30 June 2009 and which have not been adopted in these Financial Information.

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

	<u>Effective for accounting periods beginning on or after</u>
Improvements to IFRSs 2009	1 July 2009
Amendments to IAS 27, <i>Consolidated and separate financial statements</i>	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendment and standard are expected to be in the period of initial application. So far it has concluded that the adoption of these amendment and standard are unlikely to have a significant impact on the Group's result of operations and financial position.

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C SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2009:

Acquisition of forest

The Group has entered into a framework agreement with the People's Government of Ning Lang Xian on 17 September whereby the People's Government agreed to assist the Group to acquire 800,000mu (approximately 53,333 hectares) of forests at a price no more than RMB600 per mu. The consideration for such potential forest acquisition from independent third party shall be settled by cash. The Group expects to complete its acquisition of the 800,000mu forest by the first half of 2010.

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D PARENT AND ULTIMATE CONTROLLING PARTY

At 30 June 2009, the directors consider the immediate parent and ultimate controlling party of the Group to be Kingfly Capital Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

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E DIRECTORS' REMUNERATION

Save as disclosed in Section B note 9 above, no remuneration has been paid or is payable in respect of the Relevant Period to the directors of the Company. Under the arrangement presently in force, the estimated aggregate amount of the Company's directors' remuneration payable for the year ending 31 December 2009 is approximately RMB1,850,000, excluding management bonuses which are payable at the Company's discretion.

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F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2009.

Yours faithfully,

Certified Public Accountants
Hong Kong

APPENDIX IV

PROPERTY VALUATION

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Greater China Appraisal Limited, an independent valuer, in connection with its valuation as at 30 September 2009 of the property interests in the Group.



GREATER CHINA APPRAISAL LIMITED

漢華評值有限公司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

[●] 2009

The Directors
China Forestry Holdings Co., Ltd.

Dear Sirs,

In accordance with your instructions to value the property interests held or to be held by China Forestry Holdings Co., Ltd. (referred to as the "Company") and its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information for each jurisdiction as we consider necessary for the purpose of providing the capital value of such property interest as at 30 September 2009 (referred to as the "date of valuation").

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of properties and the limiting conditions.

BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

VALUATION METHODOLOGY

Unless stated as otherwise, all property interests are valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

ASSUMPTIONS

Our valuations have been made on the assumption that the owner sells the property interests on the open market in their existing states without the benefit of any deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the property interests.

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PROPERTY VALUATION

As the properties are held under long term land use rights, we have assumed that the owners of the properties have free and uninterrupted rights to use or transfer the properties for the whole of the unexpired term of the respective land use rights. In our valuation, we have assumed that the properties can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities. Unless stated as otherwise, vacant possession is assumed for the properties concerned.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in this report. Moreover, it is assumed that the utilisation of the land and improvements is within the boundaries of the site held by the owner or permitted to be occupied by the owner. In addition, we have assumed that no encroachment or trespass exists, unless noted in this report.

No environment impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation either have been or can be obtained or renewed for any use which this report covers.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificate for the respective properties.

TITLE INVESTIGATION

We have been provided with copies of title documents of the properties owned by the Group. However, due to the current registration system of the PRC, no investigations have been made for the legal title or any liabilities attached to the properties. We have relied upon the legal opinions (the "Legal Opinion") given by Commerce & Finance Law Offices ("PRC legal advisers") in relation to the legal title to the properties under valuation.

Moreover, we have been provided with copies of tenancy agreements of the properties rented to the Group. However, We have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the properties set out in this report.

LIMITING CONDITIONS

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the relevant property but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the properties included in the attached valuation certificates. However, no structural survey has been made and we are therefore unable to report as to whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the facilities.

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PROPERTY VALUATION

No soil investigations have been carried out to determine the suitability of the ground conditions or the services for plantation or any property development.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us by it on such matters as tenure, occupation, rentals, site and floor areas and in the identification of the property in which the Group has valid interest. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information to enable us to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the interest is free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Since some of the properties are located in relatively under-developed markets of the PRC, the above assumptions are often based on imperfect market evidence. A range of values may be attributable to the property depending upon the assumptions made. While the valuer has exercised his professional judgement in arriving at the value, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

OPINION OF VALUE

Valuations of the property interests held by the Group are shown in the attached summary of valuation and their respective valuation certificates.

For the properties which are rented from independent third parties under various tenancy agreements classified under Group III, they have no commercial value due to inclusion of non-alienation clauses or otherwise due to the lack of substantial profit rents or short-term nature of the leases.

REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures.

In valuing the property interest, we have complied with the requirements contained in the RICS Appraisal and Valuation Standards (5th Edition) published by the Royal Institution of Chartered Surveyors effective from May 2003 and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors and effective from 1 January 2005.

For the property interests in the PRC and Hong Kong, the property values are stated in Chinese Renminbi (RMB) and Hong Kong Dollars (HKD) respectively.

We enclose herewith the summary of valuation and valuation certificates.

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PROPERTY VALUATION

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,

For and on behalf of

GREATER CHINA APPRAISAL LIMITED

K. K. Ip *BLE, LLD*

Chartered Valuation Surveyor

Registered Professional Surveyor

Managing Director

Note: Mr. K. K. Ip, who is a chartered valuation surveyor and registered professional surveyor, has substantial experience in valuation of property in the PRC and Hong Kong since 1992.

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PROPERTY VALUATION

SUMMARY OF VALUATION

No.	Property	Capital Value in Existing State as at 30 September 2009 (RMB)
GROUP I – PROPERTY INTERESTS HELD BY THE GROUP		
1.	Mang'an Forest Shuangjiang County Yunnan Province The PRC	43,360,000
2.	Luxi Forest Dehongzhou Yunnan Province The PRC	253,030,000
3.	Gesa Village Forest Renhe Town Maguan County Wenshanzhou Yunnan Province The PRC	73,880,000
4.	Wumu Village Forest Dalishu Xiang Maguan County Wenshanzhou Yunnan Province The PRC	100,740,000
5.	Xiangpingshan Village Forest Lianhuatang Xiang Xichou County Wenshanzhou Yunnan Province The PRC	83,950,000
6.	Yangpizhai Village Forest Babu Xiang Malipo County Wenshanzhou Yunnan Province The PRC	117,530,000
7.	Chebaini Village Forest Pingyuan Town Yanshan County Wenshanzhou Yunnan Province The PRC	53,730,000

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PROPERTY VALUATION

No.	Property	Capital Value in Existing State as at 30 September 2009
		(RMB)
8.	Nalai Village Forest Ayong Xiang Funing County Wenshanzhou Yunnan Province The PRC	73,880,000
9.	Watuo Village Forest Bapu Town Meigu County Liangshanzhou Sichuan Province The PRC	920,000
10.	Watuo Village Forest Bapu Town Meigu County Liangshanzhou Sichuan Province The PRC	430,000
11.	Sa'le Village Forest Bapu Town Meigu County Liangshanzhou Sichuan Province The PRC	1,660,000
12.	Waluo Village Forest Baiyang Xiang E'bian County Leshan Sichuan Province The PRC	520,000
13.	Taiping Village Forest Honghua Xiang E'bian County Leshan Sichuan Province The PRC	660,000
14.	Gaoshan Village Forest Maoping Xiang E'bian County Leshan Sichuan Province The PRC	720,000

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PROPERTY VALUATION

No.	Property	Capital Value in Existing State as at 30 September 2009
		(RMB)
15.	Qunli Village Forest Yiping Xiang E'bian County Leshan Sichuan Province The PRC	340,000
16.	Qunli Village Forest Yiping Xiang E'bian County Leshan Sichuan Province The PRC	4,080,000
17.	Yingxin Village Forest Heping Yizu Xiang Jinhekou District Leshan Sichuan Province The PRC	50,000
18.	Yingxin Village San Zu Forest Heping Yizu Xiang Jinhekou District Leshan Sichuan Province The PRC	13,240,000
19.	Taiping Village Forest Honghua Xiang E'bian County Leshan Sichuan Province The PRC	710,000
20.	Dagong Village Forest Jinhe County Jinhekou District Leshan Sichuan Province The PRC	2,510,000
21.	Jifeng Village Forest Jinhe County Jinhekou District Leshan Sichuan Province The PRC	1,620,000

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PROPERTY VALUATION

No.	Property	Capital Value in Existing State as at 30 September 2009
		(RMB)
22.	Jifeng Village Forest Jinhe County Jinhekou District Leshan Sichuan Province The PRC	4,750,000
23.	Xiangbi Village Forest Gong'an County Jinhekou District Leshan Sichuan Province The PRC	490,000
24.	Xiangbi Village Forest Gong'an County Jinhekou District Leshan Sichuan Province The PRC	3,840,000
25.	Meizikan Village Forest Yanfeng Xiang Mabian County Leshan Sichuan Province The PRC	340,000
26.	Meizikan Village Forest Yanfeng Xiang Mabian County Leshan Sichuan Province The PRC	2,950,000
27.	Xiaogou Liu Zu Forest Gaoshan Village Maoping Xiang E'bian County Leshan Sichuan Province The PRC	150,000
28.	Wannian Village Forest Longgou Xiang Yingjiang County Leshan Sichuan Province The PRC	470,000

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PROPERTY VALUATION

No.	Property	Capital Value in Existing State as at 30 September 2009
		(RMB)
29.	Liaogongwa Zu Forest Qunli Village Yiping Xiang E'bian County Leshan Sichuan Province The PRC	220,000
30.	Qunli Village Forest Yiping Xiang E'bian County Leshan Sichuan Province The PRC	6,890,000
31.	Wannian Village Forest Longcanggou Xiang Yingjing County Ya'an Sichuan Province The PRC	650,000
32.	Wannian Village Forest Longcanggou Xiang Yingjing County Ya'an Sichuan Province The PRC	10,770,000
33.	Wannian Village Forest Longcanggou Xiang Yingjing County Ya'an Sichuan Province The PRC	470,000
34.	Wannian Village Forest Shizi Xiang Yingjing County Ya'an Sichuan Province The PRC	300,000
35.	Heping Village Forestry Xinjian Xiang Yingjing County Ya'an Sichuan Province The PRC	490,000
		Sub-total:
		860,340,000

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PROPERTY VALUATION

No.	Property	Capital Value in Existing State as at 30 September 2009 (RMB)
Group II – PROPERTY INTERESTS INTENDED TO BE ACQUIRED BY THE GROUP		
36.	Forests in Ninglang County Yunnan Province The PRC	(Please refer to note (ii) of valuation certificate of property no. 36)
Sub-total:		Nil
GROUP III – PROPERTY INTERESTS RENTED BY THE GROUP		
37.	No. 1-5 Xianggeli Main Road South Section (Street) Gucheng District Lijiang Yunnan Province The PRC	No commercial value
38.	Block C on Level 4 Zhiyuan Building No. 389 Qingnian Road Kunming Yunnan Province The PRC	No commercial value
39.	Commercial unit on Ground Floor and Residential unit on Level 3 No. 28 Nongken Road San Fu Kunming Yunnan Province The PRC	No commercial value
40.	Room 6 on Level 4 Unit 2 Block B Xingfushangcheng No. 23 Kangcang Road Yucheng District Ya'an Sichuan Province The PRC	No commercial value
41.	Units 08-09 on 21 st Floor Block 1 Shang Ding Guo Ji No. 27 of Section 4 of Renmin Nan Road Wuhou District Chengdu Sichuan Province The PRC	No commercial value
42.	Unit 2301 on 23 rd Floor Tower B Vantone Centre Jia 6 Chaowaidajie Chaoyang District Beijing The PRC	No commercial value
Sub-total:		No commercial value

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PROPERTY VALUATION

No.	Property	Capital Value in Existing State as at 30 September 2009 (HKD)
43.	Room 2507 on 25 th Floor Bank of America Tower 12 Harcourt Road Central Hong Kong	No commercial value
		Sub-total: No commercial value
		Grand Total: RMB860,340,000

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PROPERTY VALUATION

VALUATION CERTIFICATE

GROUP I – PROPERTY INTERESTS HELD BY THE GROUP

No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
1.	Mang'an Forest Shuangjiang County Yunnan Province The PRC	The property comprises a parcel of land with an area of approximately 86,666,667 square metres (approximately 8,666.67 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 30 years expiring on 12 April 2038 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	43,360,000

Notes:

- (i) According to a Forestry Rights Certificate (雙政林證字 (2008) 第5300076398號), the forestry land use rights of the property are held by Kunming Ultra Big Forestry Resource Development Co., Ltd. ("Kunming Ultra Big"), a direct wholly-owned subsidiary of the Company, for a term of 30 years expiring on 12 April 2038 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
2.	Luxi Forest Dehongzhou Yunnan Province The PRC	The property comprises 11 parcels of land with total area of approximately 506,666,667 square metres (approximately 50,666.67 hectares). The major tree species on the property are birch, beech, Yunnan pine and Chinese fir. The forestry land use rights of the property are held under 11 sets of Forestry Rights Certificate for 30 years with the latest term expiring on 11 April 2038 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	253,030,000

Notes:

- (i) According to 11 sets of Forestry Rights Certificate, the forestry land use rights of the property are held by Kunming Ultra Big for 30 years with the latest term expiring on 11 April 2038 for forestry purpose.

<u>Forestry Rights Certificate</u>	<u>Forestry Land Area (square metres)</u>	<u>Forestry Land Use Rights Expiry Date</u>
潞林證字 (2008) 第5300075412號	60,000,000	16 March 2038
梁林證字 (2008) 第5301075300號	133,333,333	11 April 2038
潞林證字 (2008) 第5300075414號	60,000,000	17 March 2038
潞林證字 (2008) 第5300075323號	564,400	10 March 2038
潞林證字 (2008) 第5300075327號	1,014,133	13 March 2038
潞林證字 (2008) 第5300075324號	5,849,734	10 March 2038
潞林證字 (2008) 第5300075338號	12,466,667	13 March 2038
潞林證字 (2008) 第5300075403號	18,400,000	9 April 2038
潞林證字 (2008) 第5300075333號	60,000,000	19 March 2038
潞林證字 (2008) 第5300075340號	60,000,000	18 March 2038
潞林證字 (2008) 第5300075432號	95,038,400	20 March 2038
	<u>506,666,667</u>	

- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
- (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.

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- (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
- (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
- (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
3.	Gesa Village Forest Renhe Town Maguan County Wenshanzhou Yunnan Province The PRC	The property comprises a parcel of land with an area of approximately 146,666,667 square metres (approximately 14,666.67 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 30 years expiring on 22 July 2038 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	73,880,000

Notes:

- (i) According to a Forestry Rights Certificate (馬林證字 (2008) 第5108547621號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 30 years expiring on 22 July 2038 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
4.	Wumu Village Forest Dalishu Xiang Maguan County Wenshanzhou Yunnan Province The PRC	The property comprises a parcel of land with an area of approximately 200,000,000 square metres (approximately 20,000.00 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 30 years expiring on 22 July 2038 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	100,740,000

Notes:

- (i) According to a Forestry Rights Certificate (馬林證字 (2008) 第5108543321號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 30 years expiring on 22 July 2038 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
5.	Xiangpingshan Village Forest Lianhuatang Xiang Xichou County Wenshanzhou Yunnan Province The PRC	The property comprises a parcel of land with an area of approximately 166,666,667 square metres (approximately 16,666.67 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 30 years expiring on 23 July 2038 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	83,950,000

Notes:

- (i) According to a Forestry Rights Certificate (西林證字 (2008) 第5106934521號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 30 years expiring on 23 July 2038 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
6.	Yangpizhai Village Forest Babu Xiang Malipo County Wenshanzhou Yunnan Province The PRC	The property comprises a parcel of land with an area of approximately 233,333,333 square metres (approximately 23,333.33 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 30 years expiring on 22 July 2038 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	117,530,000

Notes:

- (i) According to a Forestry Rights Certificate (麻林證字 (2008) 第5101254965號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 30 years expiring on 22 July 2038 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
7.	Chebaini Village Forest Pingyuan Town Yanshan County Wenshanzhou Yunnan Province The PRC	The property comprises a parcel of land with an area of approximately 106,666,667 square metres (approximately 10,666.67 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 30 years expiring on 23 July 2038 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	53,730,000

Notes:

- (i) According to a Forestry Rights Certificate (覲林證字 (2008) 第5104421365號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 30 years expiring on 23 July 2038 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
8.	Nalai Village Forest Ayong Xiang Funing County Wenshanzhou Yunnan Province The PRC	The property comprises a parcel of land with an area of approximately 146,666,667 square metres (approximately 14,666.67 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 30 years expiring on 24 July 2038 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	73,880,000

Notes:

- (i) According to a Forestry Rights Certificate (富林證字 (2008) 第5108585422號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 30 years expiring on 24 July 2038 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
9.	Watuo Village Forest Bapu Town Meigu County Liangshanzhou Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,869,333 square metres (approximately 186.93 hectares). The major tree species on the property are Yunnan pine and alder. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 30 September 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	920,000

Notes:

- (i) According to a Forestry Rights Certificate (美府林證字 (2008) 第3650395號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 30 September 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
10.	Watuo Village Forest Bapu Town Meigu County Liangshanzhou Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 880,000 square metres (approximately 88.00 hectares). The major tree species on the property are Yunnan pine and alder. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 30 September 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	430,000

Notes:

- (i) According to a Forestry Rights Certificate (美府林證字 (2008) 第3650390號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 30 September 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
11.	Sa'le Village Forest Bapu Town Meigu County Liangshanzhou Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 3,382,667 square metres (approximately 338.27 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 27 November 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	1,660,000

Notes:

- (i) According to a Forestry Rights Certificate (美府林證字 (2008) 第3650357號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 27 November 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
12.	Waluo Village Forest Baiyang Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,074,667 square metres (approximately 107.47 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 27 March 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	520,000

Notes:

- (i) According to a Forestry Rights Certificate (峨林證字 (2008) 第5104316093號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 27 March 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
13.	Taiping Village Forest Honghua Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,366,667 square metres (approximately 136.67 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 27 February 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	660,000

Notes:

- (i) According to a Forestry Rights Certificate (峨林證字 (2008) 第5104316092號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 27 February 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
14.	Gaoshan Village Forest Maoping Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,497,600 square metres (approximately 149.76 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 20 January 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	720,000

Notes:

- (i) According to a Forestry Rights Certificate (峨林證字 (2008) 第5104316087號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 20 January 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
15.	Qunli Village Forest Yiping Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 692,000 square metres (approximately 69.20 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 27 May 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	340,000

Notes:

- (i) According to a Forestry Rights Certificate (峨林證字 (2008) 第5104316115號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 27 May 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
16.	Qunli Village Forest Yiping Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 8,333,333 square metres (approximately 833.33 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 27 September 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	4,080,000

Notes:

- (i) According to a Forestry Rights Certificate (峨林證字 (2008) 第5104316119號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 27 September 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
17.	Yingxin Village Forest Heping Yizu Xiang Jinhekou District Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 167,467 square metres (approximately 16.75 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 13 years expiring on 23 October 2021 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	50,000

Notes:

- (i) According to a Forestry Rights Certificate (金林證字 (2008) 第00099號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 13 years expiring on 23 October 2021 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
18.	Yingxin Village San Zu Forest Heping Yizu Xiang Jinhekou District Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 26,666,667 square metres (approximately 2,666.67 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 29 years expiring on 22 August 2037 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	13,240,000

Notes:

- (i) According to a Forestry Rights Certificate (金林證字 (2008) 第00161號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 29 years expiring on 22 August 2037 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
19.	Taiping Village Forest Honghua Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,453,333 square metres (approximately 145.33 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 30 November 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	710,000

Notes:

- (i) According to a Forestry Rights Certificate (峨林證字 (2008) 第5104316081號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 30 November 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
20.	Dagong Village Forest Jinhe County Jinhekou District Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 5,110,667 square metres (approximately 511.07 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 25 December 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	2,510,000

Notes:

- (i) According to a Forestry Rights Certificate (金林證字 (2008) 第00116號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 25 December 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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VALUATION CERTIFICATE

No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
21.	Jifeng Village Forest Jinhe County Jinhekou District Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 3,333,333 square metres (approximately 333.33 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 9 July 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	1,620,000

Notes:

- (i) According to a Forestry Rights Certificate (金林證字 (2008) 第00126號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 9 July 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
22.	Jifeng Village Forest Jinhe County Jinhekou District Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 9,700,000 square metres (approximately 970.00 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 29 October 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	4,750,000

Notes:

- (i) According to a Forestry Rights Certificate (金林證字 (2008) 第00148號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 29 October 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
23.	Xiangbi Village Forest Gong'an County Jinhekou District Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,000,000 square metres (approximately 100.00 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 30 April 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	490,000

Notes:

- (i) According to a Forestry Rights Certificate (金林證字 (2008) 第00139號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 30 April 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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VALUATION CERTIFICATE

No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
24.	Xiangbi Village Forest Gong'an County Jinhekou District Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 7,787,333 square metres (approximately 778.73 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 29 years expiring on 12 March 2037 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	3,840,000

Notes:

- (i) According to a Forestry Rights Certificate (金林證字 (2008) 第00153號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 29 years expiring on 12 March 2037 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
25.	Meizikan Village Forest Yanfeng Xiang Mabian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 693,333 square metres (approximately 69.33 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 30 April 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	340,000

Notes:

- (i) According to a Forestry Rights Certificate (馬林證字 (2008) 第5547號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 30 April 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
26.	Meizikan Village Forest Yanfeng Xiang Mabian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 6,000,000 square metres (approximately 600.00 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 29 years expiring on 29 January 2037 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	2,950,000

Notes:

- (i) According to a Forestry Rights Certificate (馬林證字 (2008) 第5529號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 29 years expiring on 29 January 2037 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
27.	Xiaogou Liu Zu Forest Gaoshan Village Maoping Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 797,533 square metres (approximately 79.75 hectares). The major tree species on the property are Chinese fir and birch. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 8 years expiring on 23 April 2016 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	150,000

Notes:

- (i) According to a Forestry Rights Certificate (峨林證字 (2008) 第5104299346號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 8 years expiring on 23 April 2016 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
28.	Wannian Village Forest Longgou Xiang Yingjing County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,040,000 square metres (approximately 104.00 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 24 years expiring on 30 December 2032 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	470,000

Notes:

- (i) According to a Forestry Rights Certificate (榮林證字 (2008) 第5100970009號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 24 years expiring on 30 December 2032 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
29.	Liaogongwa Zu Forest Qunli Village Yiping Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises 2 parcels of land with a total area of approximately 454,667 square metres (approximately 45.47 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under 2 sets of Forestry Rights Certificate for a term of 26 years expiring on 1 September 2034 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	220,000

Notes:

- (i) According to 2 sets of Forestry Rights Certificate, the forestry land use rights of the property are held by Kunming Ultra Big for a term of 26 years expiring on 1 September 2034 for forestry purpose.

<u>Forestry Rights Certificate</u>	<u>Forestry Land Area (square metres)</u>	<u>Forestry Land Use Rights Expiry Date</u>
峨林證字 (2008) 第 5104316050 號	81,333	1 September 2034
峨林證字 (2008) 第 5104316083 號	373,333	1 September 2034
Total:	<u>454,667</u>	

- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
30.	Qunli Village Forest Yiping Xiang E'bian County Leshan Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 13,858,267 square metres (approximately 1,385.83 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 29 years expiring on 21 October 2037 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	6,890,000

Notes:

- (i) According to a Forestry Rights Certificate (峨林證字 (2008) 第5104316176號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 29 years expiring on 21 October 2037 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
31.	Wannian Village Forest Longcanggou Xiang Yingjing County Ya'an Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,433,333 square metres (approximately 143.33 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 27 February 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	650,000

Notes:

- (i) According to a Forestry Rights Certificate (榮林證字 (2008) 第5100996173號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 27 February 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
32.	Wannian Village Forest Longcanggou Xiang Yingjing County Ya'an Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 23,333,333 square metres (approximately 2,333.33 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 29 years expiring on 17 July 2037 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	10,770,000

Notes:

- (i) According to a Forestry Rights Certificate (榮林證字 (2008) 第5100996184號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 29 years expiring on 17 July 2037 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
33.	Wannian Village Forest Longcanggou Xiang Yingjing County Ya'an Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 1,040,000 square metres (approximately 104.00 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 30 April 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	470,000

Notes:

- (i) According to a Forestry Rights Certificate (榮林證字 (2008) 第5100996179號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 30 April 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
34.	Wannian Village Forest Shizi Xiang Yingjing County Ya'an Sichuan Province The PRC	The property comprises a parcel of land with an area of approximately 653,333 square metres (approximately 65.33 hectares). The major tree species on the property is Chinese fir. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 28 years expiring on 30 August 2036 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	300,000

Notes:

- (i) According to a Forestry Rights Certificate (榮林證字 (2008) 第5100996187號), the forestry land use rights of the property are held by Kunming Ultra Big for a term of 28 years expiring on 30 August 2036 for forestry purpose.
- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) Kunming Ultra Big has obtained the forestry land use rights of the property.
 - (b) Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
 - (c) In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
 - (d) The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
 - (e) The forestry land use rights are not subject to mortgage or any other encumbrances.

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No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
35.	Heping Village Forest Xinjian Xiang Yingjing County Ya'an Sichuan Province The PRC	The property comprises 6 parcels of land with a total area of approximately 848,400 square metres (approximately 84.84 hectares). The major tree species on the property are mixture of firs. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 64 years expiring on 31 March 2072 for forestry purpose.	The property is currently occupied by the Group for forestry purpose.	490,000

Notes:

- (i) According to a Forestry Rights Certificate, the forestry land use rights of the property are held by Kunming Ultra Big for a term of 64 years expiring on 31 March 2072 for forestry purpose.

Forestry Rights Certificate	Forestry Land Area (square metres)	Forestry Land Use Rights Expiry Date
榮林證字 (2008) 第5100996251號	210,000	31 March 2072
榮林證字 (2008) 第5100996251號	55,933	31 March 2072
榮林證字 (2008) 第5100996251號	106,000	31 March 2072
榮林證字 (2008) 第5100996251號	95,333	31 March 2072
榮林證字 (2008) 第5100996251號	302,467	31 March 2072
榮林證字 (2008) 第5100996251號	78,667	31 March 2072
Total:	<u>848,400</u>	

- (ii) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:

- Kunming Ultra Big has obtained the forestry land use rights of the property.
- Kunming Ultra Big has the right to occupy and use the property within the term of forestry land use rights as stated in the respective Forestry Rights Certificate.
- In accordance with the relevant law, Kunming Ultra Big has the right to transfer, mortgage or contribute as capital the forestry land use rights.
- The current usage of the property is not in violation of any national or provincial laws, regulations or legal documents.
- The forestry land use rights are not subject to mortgage or any other encumbrances.

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Group II – PROPERTY INTERESTS INTENDED TO BE ACQUIRED BY THE GROUP

No.	Property	Descriptions	Particulars of Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
36.	Forests in Ninglang County Yunnan Province The PRC	The property comprises various parcels of land with a total area of approximately 533,333,333 square metres (approximately 53,333.33 hectares). The major tree species on the property are cold spruce, high pinus montana, larch and oak. The Group has signed an agreement with the local government for acquiring the property. However, the Group has not obtained the forestry land use rights of the property yet.	The property is currently [natural woodland].	(Please refer to note (ii) below)

Notes:

- (i) As advised by the Company and according to a Cooperation Framework Agreement dated 17 September 2009 entered into between the People's Government of Ninglang County ("Party A") and Kunming Ultra Big ("Party B"), Party A will exclusively assist Party B to acquire the forestry land use rights together with the trees standing on the property with a total land area of 800,000 mu (equivalent to approximately 53,333.33 hectares) for a period of 30 years commencing on the date of the agreement.
- (ii) As at the date of valuation, the forestry land use rights of the property were not obtained by the Group and therefore the property has no value attributable to the Group. For reference purpose, we are of the opinion that the market value of the property as at the date of valuation would be RMB270,000,000, assuming that all relevant title certificates have been obtained by the Group and the property could be freely transferred.
- (iii) For the market value opinion expressed in note (ii), we have assumed that the forestry land use rights of the property will be held for a term of 30 years commencing on the date of Cooperation Framework Agreement.

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GROUP III – PROPERTY INTERESTS RENTED BY THE GROUP

No.	Property	Descriptions and Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
37.	No. 1-5 Xianggeli Main Road South Section (Street) Gucheng District Lijiang Yunnan Province The PRC	The property comprises a unit within a single-storey building completed in or about [2006]. The gross floor area of the property is approximately 360 square metres. The property is held under a tenancy agreement dated 9 December 2008 between 中國人民解放軍雲南省麗江軍分區營房辦 (China People's Liberation Army Barracks Office of Lijiang Military District, Yunnan Province, an independent third party to the Group) as lessor and Kunming Ultra Big as lessee for a term of 3 years from 20 December 2008 to 19 December 2011 at a rent of RMB69,120 per annum. The lease is not assignable without the lessor's consent. The property is currently occupied by the Group as office.	No commercial value

Notes:

- (i) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) The lessor has not produced the Building Ownership Certificate of the property and the PRC legal advisers are unable to ascertain the prescribed use of the property.
 - (b) The validity of the tenancy agreement is uncertain and Kunming Ultra Big may be unable to use the property normally. If Kunming Ultra Big suffers loss as a result thereof, Kunming Ultra Big shall have the right to claim against the lessor for such loss in accordance with the laws of the PRC and the tenancy agreement.
 - (c) The tenancy agreement is not registered at the relevant authorities and will not be enforceable against bona fide third party. The PRC legal advisers are unable to determine whether the property is subject to any mortgage or any other encumbrances.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Descriptions and Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
38.	Block C on Level 4 Zhiyuan Building No. 389 Qingnian Road Kunming Yunnan Province The PRC	The property comprises a unit on the 4th floor within a [28]-storey building with 2-storey basement completed in or about [2000]. The gross floor area of the property is approximately 155.26 square metres. The property is held under a tenancy agreement dated 3 November 2008 between 雲南志遠房地產開發有限公司 (Yunnan Zhiyuan Real Property Development Company Limited, an independent third party to the Group) as lessor and Kunming Ultra Big as lessee for a term of 3 years from 5 November 2008 to 4 November 2011 at a rent of RMB8,583.33 per month exclusive of management fee. The lease is not assignable. The property is currently occupied by the Group as office.	No commercial value

Notes:

- (i) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) The lessor has obtained the Building Ownership Certificate of the property (昆明市房權證字第200348803號). The property is not subject to any mortgage or any other encumbrances.
 - (b) The tenancy agreement is legal and valid notwithstanding that it has not been registered at the relevant authorities. However, it will not be enforceable against bona fide third party.
 - (c) Kunming Ultra Big has the rights to use the property in accordance with the terms and conditions of the tenancy agreement.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Descriptions and Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
39.	Commercial unit on Ground Floor and Residential unit on Level 3 No. 28 Nongken Road San Fu Kunming Yunnan Province The PRC	The property comprises a commercial unit on the ground floor and a residential unit on the 3rd floor within a [5]-storey building completed in or about [2008]. The gross floor area of the property is approximately 160 square metres. The property is held under a tenancy agreement dated 9 April 2009 between 黃國達 (Huang Guo Da, an independent third party to the Group) as lessor and Kunming Ultra Big as lessee for a term of 1 year from 13 April 2009 to 12 April 2010 at a rent of RMB19,000 for the commercial unit and RMB6,000 for the residential unit per annum exclusive of utility charges. The lease is not assignable. The property is currently occupied by the Group as [office and staff quarters].	No commercial value

Notes:

- (i) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) The lessor has not produced the Building Ownership Certificate of the property and the PRC legal advisers are unable to ascertain the prescribed use of the property.
 - (b) The validity of the tenancy agreement is uncertain and Kunming Ultra Big may be unable to use the property normally. If Kunming Ultra Big suffers loss as a result thereof, Kunming Ultra Big shall have the right to claim against the lessor for such loss in accordance with the laws of the PRC and the tenancy agreement.
 - (c) The tenancy agreement is not registered at the relevant authorities and will not be enforceable against bona fide third party. The PRC legal advisers are unable to determine whether the property is subject to any mortgage or any other encumbrances.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Descriptions and Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
40.	Room 6 on Level 4 Unit 2 Block B Xingfushangcheng No. 23 Kangcang Road Yucheng District Ya'an Sichuan Province The PRC	The property comprises a unit on 4th floor within a 7-storey building completed in or about 2002. The gross floor area of the property is approximately 165.84 square metres. The property is held under a tenancy agreement dated 9 April 2009 between 張平 (Zhang Ping, an independent third party to the Group) as lessor and 李海軍 (Li Hai Jun, an authorised person appointed by [Kunming Ultra Big Ya'an Branch for leasing matters]) as lessee for a term of 1 year from 9 April 2009 to 8 April 2010 at a rent of RMB9,000 per annum. The lease is not assignable. The property is currently occupied by the Group as an office.	No commercial value

Notes:

- (i) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) The lessor has obtained the Building Ownership Certificate of the property (雅房權證市字第0043859號). The property is not subject to any mortgage or any other encumbrances.
 - (b) The tenancy agreement is legal and valid notwithstanding that it has not been registered at the relevant authorities. However, it will not be enforceable against bona fide third party.
 - (c) Kunming Ultra Big has the rights to use the property in accordance with the terms and conditions of the tenancy agreement.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Descriptions and Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
41.	Units 08-09 on 21st Floor Block 1 Shang Ding Guo Ji No. 27 of Section 4 of Renmin Nan Road Wuhou District Chengdu Sichuan Province The PRC	The property comprises 2 units on 21 floor within a 30-storey building completed in or about 2006. The gross floor area of the property is approximately 249.56 square metres. The property is held under an undated tenancy agreement between 成都鸞峰經貿有限公司 (Chengdu Lufeng Jiangmao Company Limited, an independent third party to the Group) as lessor and Chengdu Yishang Forestry Resource Development Co., Ltd. ("Chengdu Yishang", an indirect wholly-owned subsidiary of the Company) as lessee for a term of 1 year from 11 May 2009 to 10 May 2010 at a rent of RMB12,478 per month exclusive of utility charges. The lease is not assignable. The property is currently occupied by the Group as an office.	No commercial value

Notes:

- (i) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) The lessor has not produced the Building Ownership Certificate of the property and the PRC legal advisers are unable to ascertain the prescribed use of the property.
 - (b) The validity of the tenancy agreement is uncertain and Chengdu Yishang may be unable to use the property normally. If Chengdu Yishang suffers loss as a result thereof, Chengdu Yishang shall have the right to claim against the lessor for such loss in accordance with the laws of the PRC and the tenancy agreement.
 - (c) Non-registration of the tenancy agreement will not affect its validity. Since the tenancy agreement has not been registered at the relevant authorities, it will not be enforceable against bona fide third party.

APPENDIX IV

PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Descriptions and Occupancy	Capital Value in Existing State as at 30 September 2009 (RMB)
42.	Unit 2301 on 23 rd Floor Tower B Vantone Centre Jia 6 Chaowaidajie Chaoyang District Beijing The PRC	The property comprises a unit on 23rd floor within a 23-storey commercial building with 4-storey basement completed in or about 2006. The gross floor area of the property is approximately 739.78 square metres. The property is held under a tenancy agreement dated 7 March 2008 and 2 supplementary agreements dated 12 September 2008 and 11 February 2009 respectively between 苗玉娥 (Miao Yu E, an independent third party to the Group) as lessor and Kunming Ultra Big Beijing Branch as lessee for a term of 2 years from 20 October 2008 to 19 October 2010 at a rent of RMB4.5 per square metre per day exclusive of management fee. The lease is not assignable. The property is currently occupied by the Group as an office.	No commercial value

Notes:

- (i) We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
 - (a) The property has been purchased by the lessor under a Beijing Property Sales and Purchase Agreement (No. Y302038) and the application for Building Ownership Certificate of the property by the lessor is in process. The PRC legal advisers are unable to ascertain the prescribed use of the property. In accordance with the relevant laws in the PRC, the lessor is not allowed to lease the property without obtaining the building ownership certificate. The validity of the tenancy agreement is uncertain.
 - (b) Before obtaining the building ownership certificate by the lessor, there exists a risk that Kunming Ultra Big may be unable to use the property normally. If Kunming Ultra Big suffers loss as a result thereof, Kunming Ultra Big shall have the right to claim against the lessor for such loss in accordance with the laws of the PRC and the tenancy agreement.
 - (c) The tenancy agreement is not registered at the relevant authorities and will not be enforceable against bona fide third party. The PRC legal advisers are unable to determine whether the property is subject to any mortgage or any other encumbrances.

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PROPERTY VALUATION

VALUATION CERTIFICATE

No.	Property	Descriptions and Occupancy	Capital Value in Existing State as at 30 September 2009 (HKD)
43.	Room 2507 on 25 th Floor Bank of America Tower 12 Harcourt Road Central Hong Kong	The property comprises an office unit on 25th floor within a 37-storey building with a single-storey basement of car parking spaces completed in 1975. The net floor area of the property is approximately [77.48] square metres. The property is held under a tenancy agreement dated 6 November 2008 (as revised by a letter dated 15 May 2009) between Leung Yew Limited ([an independent third party to the Group]) as lessor and the Company as lessee for a term of 2 years from 6 November 2008 to 5 November 2010 at a rent of HK\$60,950 per month from 6 November 2008 to 5 June 2009 and HK\$52,500 per month from 6 June 2009 to 5 November 2010, exclusive of government rates, government rent, management fee and utility charges. The lease is not assignable. The property is currently occupied by the Group as an office.	No commercial value

APPENDIX V

INDEPENDENT TECHNICAL REPORT

The following is the text of a letter and independent technical report prepared for the purpose of incorporation in this document received from CFK, an independent technical consultant, in connection with the forestry assets of our Group.

CFK's technical report presents all of our forest held by our Group. The projections contained in CFK's technical report are not necessarily indicative of future performance and the actual woodflows, costs and capital expenditures may vary from the projections contained in the technical report.



Chandler Fraser Keating Limited
FOREST INDUSTRY CONSULTANTS

Chandler Fraser Keating Limited
Level 1 Quadrant House
1277 Haupapa Street
P O Box 2246
Rotorua, New Zealand

[●] 2009

The Directors
China Forestry Holdings Co., Ltd.

Dear Sirs,

Re: Independent Technical Report

Chandler Fraser Keating Limited (CFK) has been approached by China Forestry Holdings Co., Ltd. ("The Company", with it and its subsidiaries collectively called "The Group") to provide an Independent Technical Review of their forest operations in the Peoples Republic of China.

CFK understands that The Company intends to include this Independent Technical Report (ITR) in the document to be issued by The Company.

This report presents CFK's findings of our review of the forest operations of The Group.

The review was to:

- observe current forest operations;
- assess current practices and validate costs, prices and production levels; and
- provide comment on environmental performance.

CFK conducted their review on various occasions in 2008 and in March and August 2009 when CFK consultants visited some of the forest areas in Sichuan and Yunnan and spent time at The Group's offices in Beijing.

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INDEPENDENT TECHNICAL REPORT

Forward - Looking Statements

All statements in this review that are not statements of historical fact, such as estimates of current and future growth of the forests, constitute forward looking statements. These forward looking statements and other matters discussed in this ITR that are not historical fact are only CFK's projections of future performance and this may differ from the actual performance. Nothing in this report is, or should be relied upon as a promise by CFK that the actual future performance, results, achievements, growth, yields, costs, or prices relating to the current or planned forests will be as discussed in this ITR. Factors that could impact performance that could cause actual results or performance to differ from this ITR include, but are not limited to, those factors discussed in the ITR. Actual results may differ from the opinions contained in this report as anticipated events may not occur as expected and the variation may be significant.

Statement of Interests

CFK was selected to undertake this review based upon our company's expertise in the forest industry. CFK has no historical relationship with and is independent of The Group and has no economic interest in any of the assets covered in this review. Our payment for this report is not contingent upon The Group's approval of our work.

Report Qualifications and Assumptions

In preparing this report we have relied on the accuracy and completeness of the forest inventory, operating costs and other data supplied by The Group. We have reviewed the information supplied by The Group and believe that it is consistent with the information and knowledge that The Group has on its forests. This ITR relies upon the information provided by The Group, and while we have compared the key information provided by The Group with our own research, the accuracy of the results and conclusions of the report are reliant on the accuracy of the information provided.

CFK has undertaken limited visual inspection of the forests on various occasions in 2008 and in March and August 2009.

CFK did not undertake any new inventory nor were we able to independently verify the forest area description.

This ITR is subject to certain limitations including among others the following:

- CFK undertook site inspections which can only provide an indicative subjective assessment of the quality of the forest resource and the likely wood flows. CFK assumes that the sites visited were broadly representative of the forest estate as a whole;
- CFK did not undertake a full scale review of the existence of any hazardous substances or other adverse environmental conditions that may or may not be present in The Group's forest; and
- CFK is not expert in and expresses no opinion on legal or accounting matters assumed for the purposes of this ITR.

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INDEPENDENT TECHNICAL REPORT

The actual wood flows, production volumes, and conditions of The Group's forests may differ from that set forth in this ITR. The degree of uncertainty increases with each year presented. If actual wood flows, production volume and forest conditions are less favourable than those shown or if the assumptions used in formulating the projections prove to be incorrect, The Group's business and operations may differ from the projections.

The report contains input from a number of people within CFK and its production has been under the management of the undersigned to whom any questions should be referred in the first instance. This report has been prepared according to forestry consulting generally accepted practices and the reader is referred to information on what investigations have been undertaken and what was either not undertaken or not able to be undertaken due to government regulations.

Chandler Fraser Keating Limited has no responsibility to update the report for events and circumstances occurring after the date of issue.

Yours faithfully

Geoff Manners
Forestry Consultant

APPENDIX V

INDEPENDENT TECHNICAL REPORT

1 INTRODUCTION

1.1 THE PARTIES

China Forestry Holdings Co., Ltd

China Forestry Holdings Co., Ltd ("The Group", with it and its subsidiaries collectively called "The Group") is currently one of the largest privately owned forestry companies in China. It currently has 12,447 hectares of forest in Sichuan province, and 159,333 hectares of forest in Yunnan province.

Chandler Fraser Keating Limited

Chandler Fraser Keating Limited (CFK) is a privately owned specialist forest consulting firm headquartered in Rotorua New Zealand. It has a 50% joint venture, MBAC Consulting Group Pty Ltd, with its headquarters in Melbourne Australia.

Formed in 1980, CFK has developed in to a specialist forest and solid wood processing consultancy with a focus on operations in the Asia Pacific region.

1.2 SCOPE OF WORK

CFK was commissioned to review The Group's forestry operations and present the results in an Independent Technical Report (ITR).

Specifically the review was to:

- observe current forest operations;
- assess current practices and costs, prices and production levels; and
- provide comment on environmental performance.

The ITR would be used in conjunction with the document.

1.3 WHAT IS COVERED

This report is set out in the following sections:

- key assumptions
- a review of The Group and its development;
- a market review;
- a review of The Group's current forest operations;
- a review of The Group's future operations.

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INDEPENDENT TECHNICAL REPORT

2 KEY ASSUMPTIONS

2.1 FORESTS

Summarised inventory information provided to CFK forms the basis for preparing the wood flow projections used in this report.

Each harvest operation requires a harvest permit from the local authority. The annual allowable cut has been set at 10% of the initial inventory volume. This assessment has been made following discussion with The Group executives responsible for applying for cutting permits, and this is the basis upon which applications to date have been approved.

The non-declining yield has been based upon management's stated intention to provide for a stable wood flow.

Trees are replanted after harvest and management is still evaluating at what age these trees should be harvested. CFK has used a minimum felling age of 15 years to prepare the wood flows. This view is certainly liable to change, particularly when The Group gains more comprehensive growth and yield data.

2.2 OPERATING COSTS

Operating costs are based on the operating costs as at the end of 2007 and early 2008.

2.3 EXCHANGE RATE

Unless otherwise noted CFK has used the following exchange rate for current prices and costs.

USD 1.00 = 6.8630 RMB

For log price time series, the average USD:RMB for the time period concerned is used.

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INDEPENDENT TECHNICAL REPORT

3. GROUP OPERATIONS

3.1 BACKGROUND

As at 30 June 2008 The Group owns forest assets primarily located in Sichuan and Yunnan provinces in the Peoples Republic of China, and sells logs into the domestic market to a range of predominantly sawmilling customers. The Group currently owns approximately 171,786 stocked hectares of productive forest. This forest estate has been acquired over a number of years with the first purchases made in June 2003 (Table 3.1).

Table 3.1 NET FOREST AREA AS AT 30 JUNE 2009 (hectares)

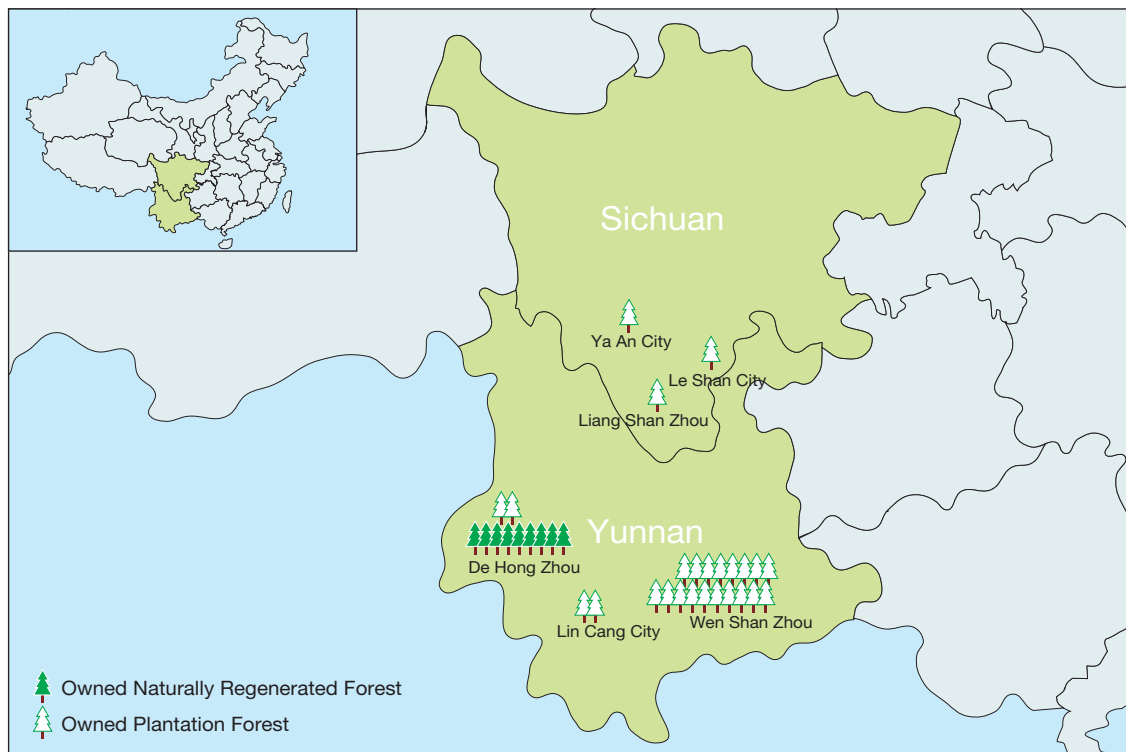
<u>Year of Establishment</u>	<u>Birch</u>	<u>Fir</u>	<u>Beech</u>	<u>Yunnan Pine</u>	<u>Fir Cedar Birch Mix</u>	<u>Yunnan Pine Alder Mix</u>	<u>Total</u>
Sichuan Province							
1983					80	187	267
1984		760			62	88	910
1985		737			0	0	737
1986		2,683			0	0	2,683
1987		7,765			85	0	7,850
Total Sichuan Province		11,945			227	275	12,447
Yunnan Province							
Luxi							
1947-1966				5,781			5,781
1967-1976				1,586			1,586
1977-1988				1,014			1,014
1989-				286			286
Up to 1982	21,280	7,093	7,093				35,466
After 1982	9,120	3,040	3,040				15,200
Wenshan							
1983-1990		100,000					100,000
Total Yunnan Province	30,400	10,133	10,133	8,667			159,333
Total Estate	30,400	22,078	10,113		227	275	171,780

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The general location of the forest estate is shown in Figure 3.1.

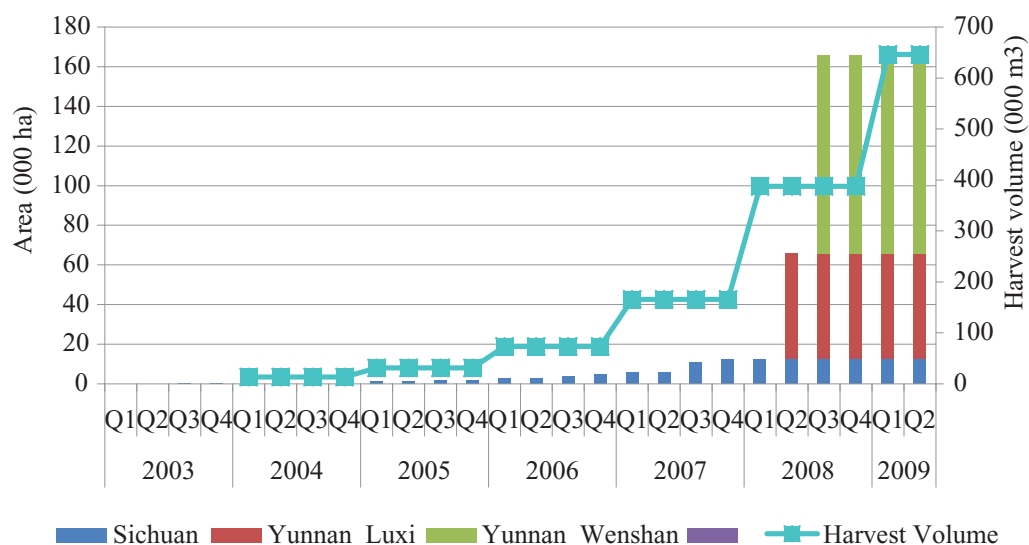
Figure 3.1 GENERAL FOREST LOCATION



Source: The Group

The Group harvested a total of 387,000 m³ in 2008 and plans to harvest a total of 646,000 m³ in 2009. In 2008 a total of 236,000 m³ was harvested from the Yunnan Luxi forests The Group acquired during the first quarter of 2008. Figure 3.2 shows the expansion of the forest estate since 2003, which illustrates the impact of the recently acquired forests on the size of The Group's forest estate, and the harvest history (blue line).

Figure 3.2 FOREST ACQUISITIONS AND HARVEST HISTORY

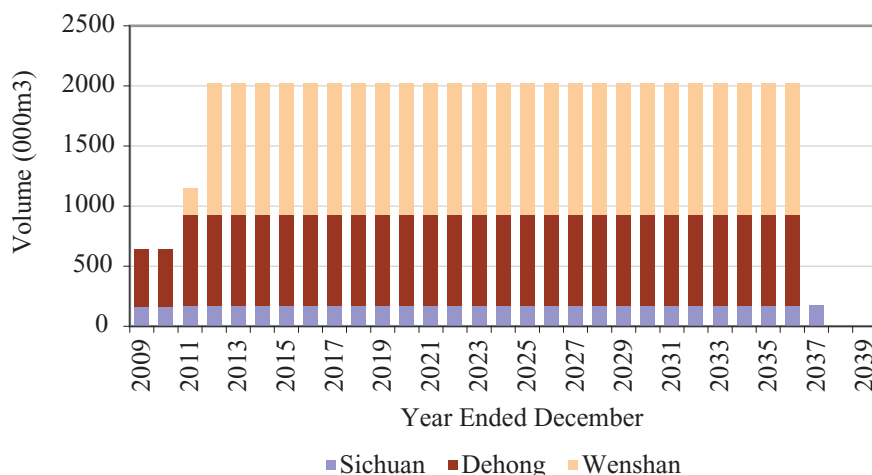


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CFK estimates that the current forest holdings can produce a non-declining yield of approximately 1.1 million m³ per annum for the next twenty years from the existing and future crops. The eventual harvest levels will be dependent upon growth of the future crops and on The Group's management plans.

Figure 3.3 ESTIMATED NON-DECLINING WOOD FLOWS



The Group's initial focus has been on establishing a sound acquisition team and on securing forest assets of the desired age and species mix to meet The Group's longer term objectives. To this end they have developed an acquisition team that has a good understanding of China's national forest policy, and appears to have good relationships with provincial and local Forestry Bureau in the target provinces.

The estate makes The Group well placed to take advantage of China's shortage of raw materials for its wood processing industries. This is particularly true for the hardwood resource in Yunnan which can provide a local alternative to imported temperate hardwoods.

3.2 FOREST OPERATIONS

The Group manages its estate using a low intensity selective harvest regime, maintaining the original stocking by replanting following harvest. The Group practices a low intensity silviculture regime. Little in the way of ongoing silviculture is practiced apart from any thinning of natural regeneration.

Planting and regeneration thinning is carried out by The Group's forest based employees. In Sichuan, harvesting is carried out using traditional methods and the Group contracts with local villagers for felling the trees, cutting to log lengths and delivery to roadside. In Yunnan specialised harvesting contractors are used. These contractors employ a combination of manual extraction methods and mechanised winches to extract the logs to roadside. Harvesting contractors are given instructions on tree sizes to cut. These tree sizes are set primarily in response to market demand, with forest dynamics playing a secondary role.

3.3 SALES AND MARKETING

Logs are sold to customers delivered to the forest edge alongside the road. This method of selling provides The Group with more control over the trees that are to be harvested than if sales of standing trees were made. The logistics of delivering the logs to each customer is also best managed by each purchaser.

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The sales activity is controlled by a national sales manager with a sales staff of thirteen—including support functions — and a further 3 customer service staff. All are located in Beijing but travel regularly to Sichuan province.

As a forest owner at least The Group is reliant on sales of logs for its revenue. CFK is of the view that a successful sales and marketing strategy requires both a sound understanding of the resource and an understanding of the customers' requirements, so that an appropriate customer base can be developed whose requirements match the natural outturn of the forest.

3.4 MANAGEMENT ORGANISATION

During the course of preparing this ITR, CFK had the opportunity to meet with various employees of The Group, both at their head office and in the field. CFK found the staff to be interested, enthusiastic and understood their roles. Management were well aware of their responsibility to the community, and local forest staff appeared to have a good knowledge of the forest area they were responsible for managing.

Any review of The Group's organisation has to be undertaken with regard to the stage of its business development. To date the focus has been on acquiring a forest estate that would give The Group economies of scale, spread over a number of geographies with a mix of species. A secondary focus has been in building relationships with key stake holders, be it local villagers, local and regional forestry bureau staff and customers. Understandably there has not been the same emphasis placed on developing technical forestry expertise, particularly in growth and yield as well as data capture and forest record systems. The Group had approximately 12,000 hectares under management as at 31 December 2007 (Most of this area was acquired during the second half of 2007 as shown in Figure 3.2) and over 170,000 hectares as at 31 December 2008. This rapid expansion of the estate has understandably meant that the forest information systems of The Group have not been able to keep up with this rapid rate of expansion. Up until now The Group has been able to rely on the knowledge of its forest workers in the field for this information. With the current size of the estate spread over two provinces and three geographical areas, The Group will need to expedite the development of their forest information systems if the value of the resources is to be maximised. Although CFK has not seen the specifications, CFK understands that the Group is in the process of implementing an information management system which, among other things, include a GIS based forestry resources management system that uses satellite imagery together with GPS, and ground truthing of the satellite images, for collection and transmission of data gathered from forests for managing the activities of logging and replanting.

In Sichuan The Group employs a minimum of one forest worker for every 66.67 hectares (1,000 Mu) of forest. As at December 2007 there were 198 such employees in Sichuan. Often these employees are the previous owners of the forest. These employees are managed by regional supervisors (as at December 2008 there were 33 in total for the Sichuan forests), and they establish The Group's links with the community and provide a good understanding of the forest resource.

In Yunnan there is one provincial manager responsible for the day to day operations. Due to the scale of operations The Group employs one forest worker for every 1,333 hectares.

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Their role is more supervisory than in Sichuan as the physical harvesting and replanting operations are carried out by an independent contractor.

It is CFK's recommendation that The Group develop some technical forestry expertise, particularly in the growth and yield of uneven aged plantations, as well as develop a robust data capture and recording system to record log removals by location, changes in growing stock, forestry operations, and forest health. CFK understands that The Group recognises this deficiency and is taking steps to introduce a comprehensive information system as a matter of priority.

CFK is of the view that:

- The Group has developed the necessary expertise and understanding at the local, regional and national levels to acquire relatively large areas of forest land. This is a significant competitive advantage as this is one of the key barriers to entry into significant forest ownership in China.
- The Group has developed links with the local community, through the employment of local forestry workers. This has the advantage of securing the knowledge base about the forest resource as well as providing security for the estate. These links also place The Group in a good position to purchase more forest.
- The Group needs to develop technical forestry expertise in growth and yield and the behaviour of the different species in the Group's forests to a low intensity, selective logging system.
- The existing information that the Group holds on its forest estate contain a description of the estate as at the date of purchase, setting out the species, area age and volume for each forest in the Group's estate. The Group has records for each forest showing the area harvested, and the volume removed for each year. The fact that most of the Group's forests have been purchased in the last 18 months limits the number of harvesting operations that have been carried out (a maximum of 1/year/forest) in the forest since the acquisition date, means that the state of the Group's forests as at the valuation date can be accurately derived from the information that the Group holds. During 2007 and 2008, the Group's forest holdings expanded rapidly. As a result there is a need to develop a more comprehensive and soundly based forest record and reporting system to monitor the condition of the forest and provide an auditable record of future operations. This should, at the very least, include mapping the forest and development of a geographic information system. The existing system is rapidly being overtaken by the expansion of the Group's estate. Without a soundly based information system including yield management and projection systems, the Group's ability to maximise the value of the estate will be compromised.
- The implementation of a soundly based forestry resources management system record the current state of The Group's forests including the operational activities of

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logging and replanting should enable the Group to be in a better position to manage its forest resources.

- The Group has demonstrated the ability to develop good relationships with local, regional and national government officials, so that these officials are aware of The Group's objectives and operating policy; and
- Through its relationships, particularly with local stakeholders, The Group is able to secure a sufficient allocation of harvest quota in order to meet its market commitments and wood flow projections both in the short and medium term.

The Group provided CFK with a copy of their annual administration costs. Based upon this information CFK was able to allocate these costs to either forest operations (e.g. planting, weed control, protection), general administration or sales and marketing for the year ended December 2008. Table 3.2 sets out CFK's allocation of administration costs based upon the information provided for the 2008 financial year.

Table 3.2 ALLOCATION OF INDIRECT COSTS (2008)

<u>Cost Grouping</u>	<u>Forest Operations</u>	<u>General Administration</u>	<u>Harvesting and Marketing</u>
Staff Costs (000RMB)	1,084	5,238	2,709
Travel (000RMB)	252	1,031	405
Office Administration (000RMB)	959	11,538	913
Forest Insurance (000RMB)	—	9,929	—
Other (000RMB)	—	3,081	—
Total (000RMB)	2,295	30,816	4,046
Units		171,780 ha	510,033 m ³
Unit Cost		179 RMB/ha	7.93 RMB/m ³
Harvesting Permit			56.00 RMB/m ³
Total Unit Cost		179 RMB/ha	63.93 RMB/m³

3.5 IMPACT OF COMPETITORS

There are three areas where The Group's activities could be impacted by their competitors. They are in the acquisition of forests, sale of logs, and competition for labour.

3.5.1 LAND ACQUISITION

To date The Group has been successful in building up a forest holding in both Sichuan and Yunnan province, and is in the process of completing negotiations for an additional significant forest acquisition in Yunnan province.

There do not appear to be many other forest owning companies in China with a similar business model to that of The Group. Most other companies are focussed on acquiring land to establish fast growing plantations of Eucalypts for the pulp and paper industry, of Chinese Fir and Pine. These companies have largely focused on the Southern provinces of Guangdong, Guangxi, Hainan Island, Shandong and Henan. However, land at prices suitable for forest plantations is becoming scarce, particularly in Gaungxi and Guangdong provinces. It is highly

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likely that some of these locally and foreign owned pulp and paper companies will look to other provinces to extend their plantation base. Already one foreign operator (APRIL) has established plantations in Yunnan as have some locally owned pulp and paper companies. It was reported that Grand China Forestry Green Resources Group Limited (formerly known as China Grand Forestry Resources Group Limited) purchased 147,000 hectares of land (including 47,000 hectares of forest) in Yunnan during 2008. CFK understands there are also a number of private organisations that are looking to acquire forests in Yunnan. The impact of these competitors will be to increase the cost of acquiring forest. It is important that The Group capitalises on its 'first mover' advantage in Yunnan and secures its remaining target forest areas before other forest owners look to become established in the region.

3.5.2 LOG SALES

The Group is currently one of the larger log sellers in both Yunnan and Sichuan provinces. Its main competitors are a number of smaller forest owners. These owners often do not have the same commercial objectives as a larger corporate organisation and as a result may impact on the ability of The Group to increase prices.

The other corporate owners are either focused on meeting their own internal needs, or supplying a different customer base to The Group. However, they are likely to be more disciplined in their behaviour than the smaller sellers. As China will continue to import logs, The Group and the other corporate forest owners should be more competitive than the cost of imported logs and should be able to sell their harvest volumes without oversupplying the market. With an increasing forest area and an associated increase in potential harvest volumes, the impact of these competitors could limit the Group's ability to sell the increasing volume of logs.

3.5.3 LABOUR

The Group's forest operations are very labour intensive (as are most forestry operations in China). Increasing urbanisation will increase pressure on rural labour availability and cost.

The Group could well see itself competing for labour with manufacturing companies based in urban centres. The degree to which it is able to compete will be largely dependent upon its community links and utilising those individuals who wish to work in or near their home village, or in the open air rather than in a factory setting.

3.6 KEY VALUE DRIVERS

CFK's opinion as to the key value drivers of a successful forest owner can be summarised as follows:

- Purchase forests at the right price and in the right location;
- Understand the resource, and its growth at both a stand and estate level;
- A good spread of customers that fit with the logs the forests can produce;
- Regular off-take agreements for a portion of the harvest volume;

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- Good stakeholder relationships; and
- Low operating costs and a strategy for continual improvement—this is a commodity business and ultimately the lower cost producer is in the best position.

4 GLOBAL FOREST PRODUCTS MARKET

This section provides a broad overview of the supply and demand of industrial roundwood, a review of Pacific Rim trade, and in particular the log trade which is The Group's products.

4.1 GLOBAL DEMAND AND SUPPLY

4.1.1 GLOBAL DEMAND

Historically there has been a close correlation between GDP, population and the consumption of industrial roundwood. In the future it is unlikely that globally the per capita consumption of roundwood will continue to strongly correlate with changes in per capita GDP. This is due to a number of factors the principle ones being:

- Improved efficiency of manufacturing (i.e. more product per m³ of log input); and
- Reduction in wood use per unit of final demand (e.g. m³ of forest products per m² of house construction).

The demand for lumber and panel products is driven by:

- New house construction;
- Repairs and remodelling of existing houses;
- Wooden furniture; and
- Packaging and shipping containers.

The demand for paper and paper products has generally been closely associated with increasing GDP. In recent times the impact of the internet and technology has impacted the demand for paper products, especially newsprint. This technological change has long been predicted but the results have only just started to become apparent.

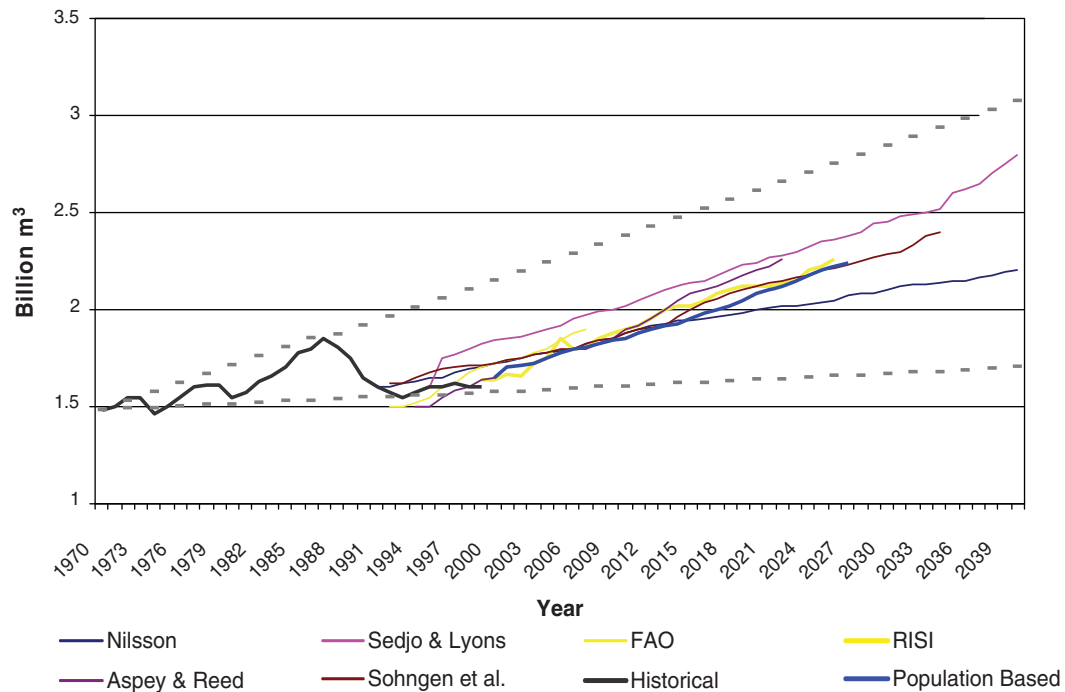
However, the average global per capita consumption of wood appears to be reasonably stable. This indicates that future global demand for industrial wood is becoming aligned with increasing population growth. In developing economies increasing per capita GDP is still likely to be an important measure for increasing demand for forest products as a more affluent population is in a position to afford larger houses, and more and higher quality furniture and fittings.

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There have been a number of studies looking at the future demand for industrial wood. Figure 4.1 shows a number of forecasts of industrial wood consumption.

Figure 4.1 GLOBAL WOOD CONSUMPTION



Source: HNRG

The decrease in demand observed during the latter half of the 1980s was due to the break-up of the Soviet Union, which resulted in a decrease in industrial wood demand. Harvest levels in the former Soviet Union have increased significantly since then but they are still below their previous levels.

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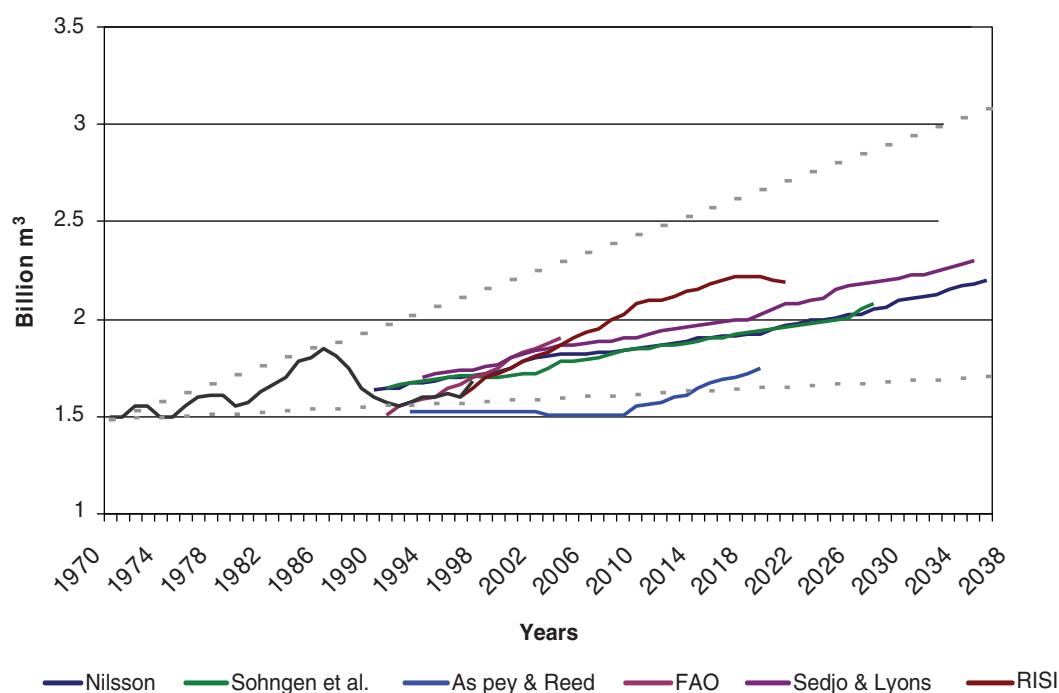
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4.1.2 GLOBAL SUPPLY

A number of studies of the potential global wood supply have also been undertaken.

Figure 4.2 shows the range of timber harvest forecasts that are currently available.

Figure 4.2 INDUSTRIAL WOOD SUPPLY FORECASTS



Note: The dotted lines represent the extrapolation of historic high and low points.
Source: HNRG, CFK Analysis

The forecasts are converging in the lower mid-section of the 1970 extrapolations. Of the most recent forecasts, RISI is the most optimistic as it incorporates an allowance for genetic gain. Most of these forecasts rely on base information collected by FAO, but apply individual assumptions on parameters such as future volume increments and availability, amongst other adjustments.

Historically, regional timber supply forecasts tend to overstate. On close examination, areas and yield tables are invariably optimistic. Apart from some well documented cases, volume increases due to genetic gain are difficult to detect on an estate-by-estate or region-by-region basis.

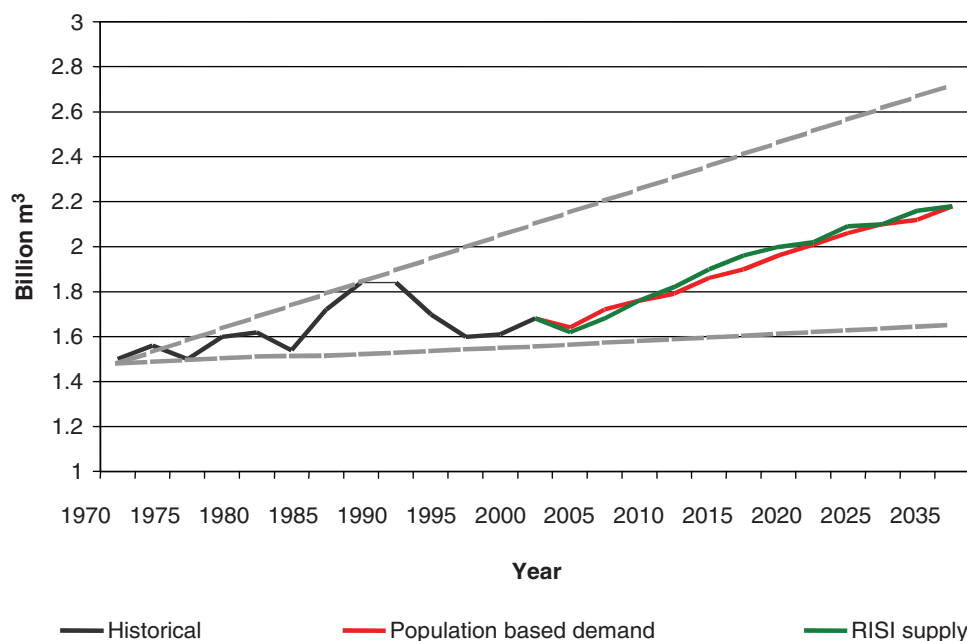
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4.1.3 GLOBAL SUPPLY AND DEMAND BALANCE

As Figure 4.3 shows, the global supply, as represented by RISI forecasts, and population- based demand for industrial wood appear to be broadly in balance, with a tendency to over- supply in the medium-term. Any differences in supply and demand are well within the error of the estimates.

Figure 4.3 GLOBAL WOOD SUPPLY AND DEMAND



Note: The dotted lines represent the extrapolation of historic high and low points
Source: HNRG

Regional supply and demand imbalances still exist, and the Asia Pacific region is identified as one region with a demand for forest products that exceeds the available regional supply. As the region contains two of the world’s fastest growing economies (China and India) this situation is expected to continue. Any increases in regional demand are likely to be met by:

- Increased imports of logs to be processed in the region;
- Increased imports of primary processed material (e.g. lumber, veneer, wood pulp); and
- Increased imports of finished products.

Owners and managers with well managed, cost competitive forest resources located in the region, particularly those with an emphasis on producing peelers and saw logs, are in a strong position to benefit from this regional “wood deficit”.

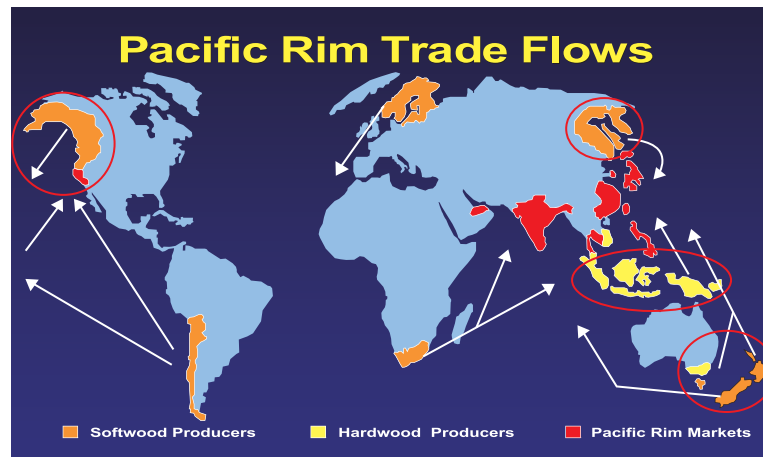
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4.2 PACIFIC RIM LOG TRADE

The Pacific Rim log market will have an important impact on future log prices.

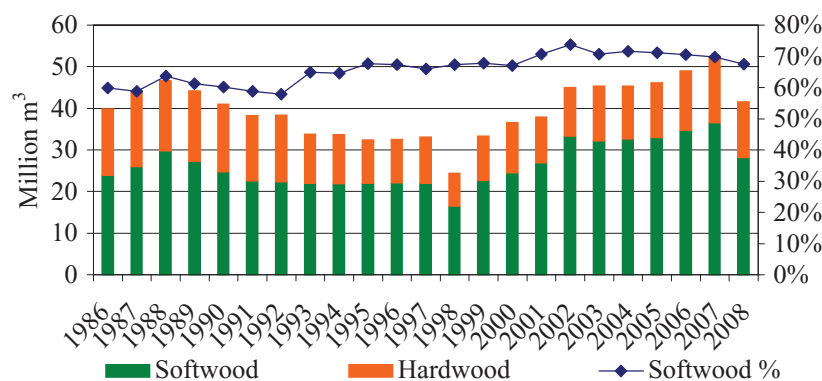
Figure 4.4 PACIFIC RIM TRADE FLOWS



The Pacific Rim log trade can be broadly broken down into the importing countries of North Asia (China, Japan and Korea) and the supplier countries lead by Russia and followed by Australasia and North America.

The Pacific Rim log trade is primarily a softwood trade. Figure 4.5 shows the volume of softwoods and hardwoods imported into North Asia.

Figure 4.5 NORTH ASIA LOG IMPORTS



Source: RISI, WTA

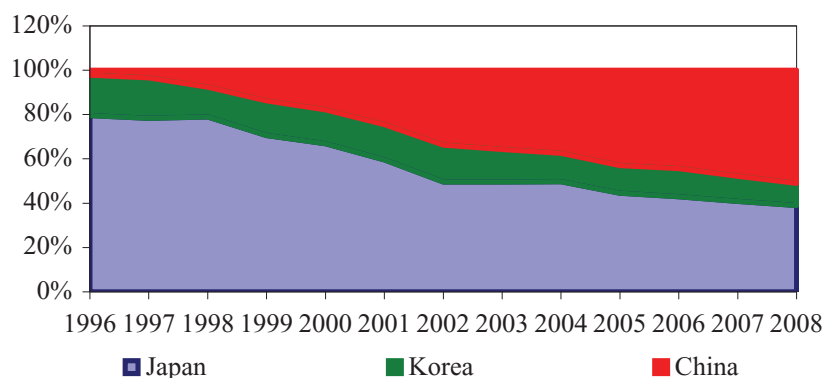
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4.2.1 SOFTWOODS

Figure 4.6 illustrates the increasing dominance of China in the Pacific Rim softwood trade.

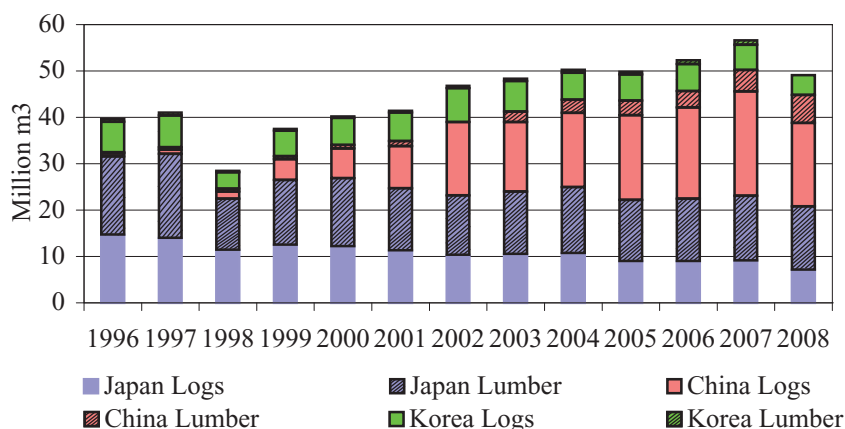
Figure 4.6 NORTH ASIA SOFTWOOD IMPORT COUNTRY MARKET SHARE



Source: RISI, WTA

Most of the softwood log imports are sawn in the North Asian markets and there is a degree of switching between log and lumber depending upon the respective economics. In order to gain a picture of the softwood trade it is important therefore that the level of softwood lumber imports/exports is also included (Figure 4.7).

Figure 4.7 NORTH ASIAN SOFTWOOD LOG AND LUMBER IMPORTS



Source: RISI, WTA

China's strong preference for logs is the main reason why the proportion of lumber imported into North Asia has declined over the last decade, from 45% in 1997 to 34% in 2007. In Japan the proportion of lumber to logs actually increased (53% to 61%).

China was a relatively small importer of logs and lumber in 1997 and had a relatively high proportion of its imports as lumber. Most of the import growth has been in logs and lumber now represents about 17% of softwood log and lumber imports, down from 33% in 1997.

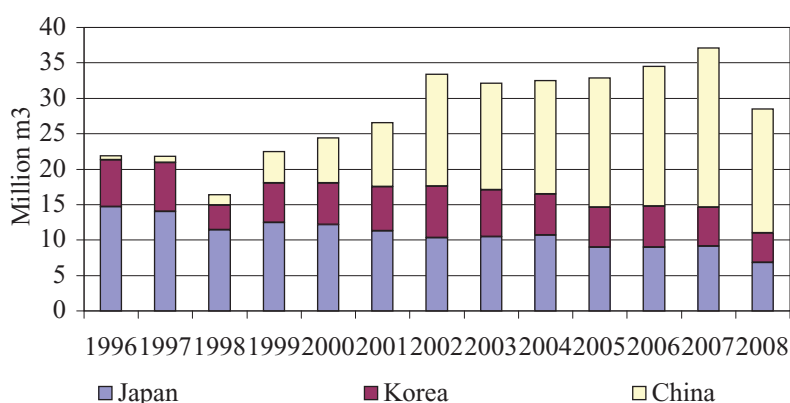
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Softwood Log Trade

Over the past decade imports by the three North Asian countries have increased by about 70%. Most of this growth has come from China where log imports have increased at an average of 38% per year. In contrast, Japan's softwood log imports have declined by 4.0% per year (Figure 4.8).

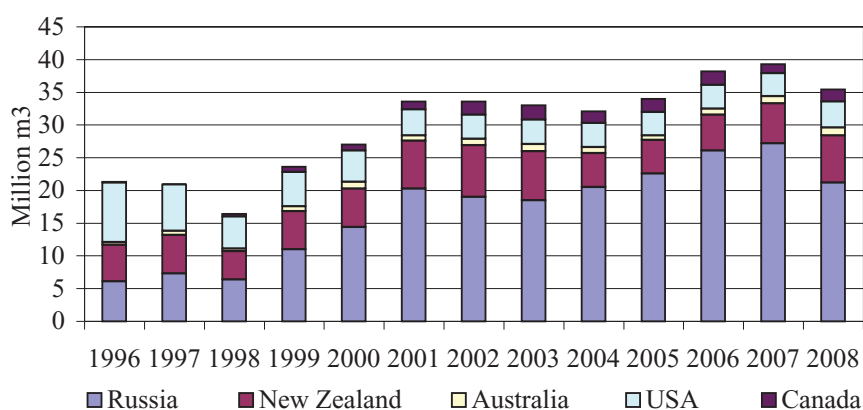
Figure 4.8 NORTH ASIAN SOFTWOOD LOG IMPORTS



Source: RISI, WTA

The importance of individual supplier countries has also changed over the same period (Figure 4.9).

Figure 4.9 SOFTWOOD LOG EXPORTS BY ORIGIN



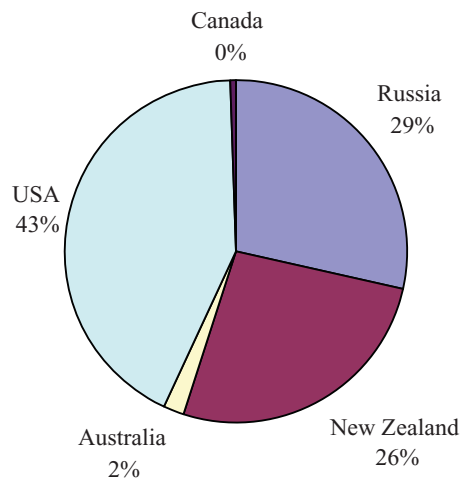
Source: RISI, WTA

Russia is now the dominant supplier with an estimated 69% market share. Two countries — Russia and New Zealand — hold an 85% market share, despite New Zealand slightly reducing market share over the period. The USA's share of the market has declined significantly from supplying 43% of the market to 9% in 2007 (Figure 4.10, Figure 4.11).

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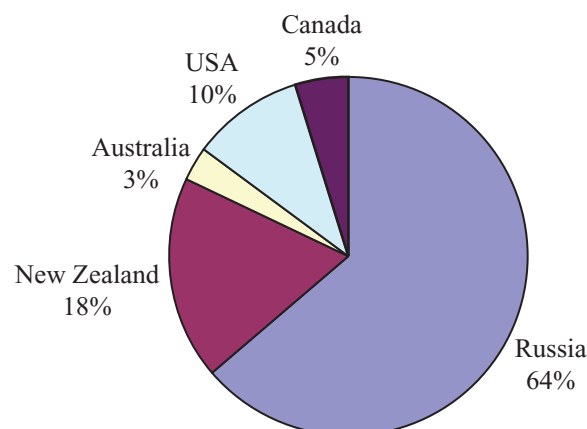
Figure 4.10 MARKET SHARE IN 1997



Source: RISI

Between 1996 and 2007 Russian log exports to China increased significantly. In 2007 Russia accounted for 68% of China's log imports. Russian log exports fell dramatically during 2008 due to a combination of falling shipping costs making the other suppliers more competitive and the Russian log export tax making Russian logs more expensive. It is still too early to say if this represents the future picture as freight rates are likely to increase as the global economy recovers.

Figure 4.11 MARKET SHARE IN 2008



Source: WTA

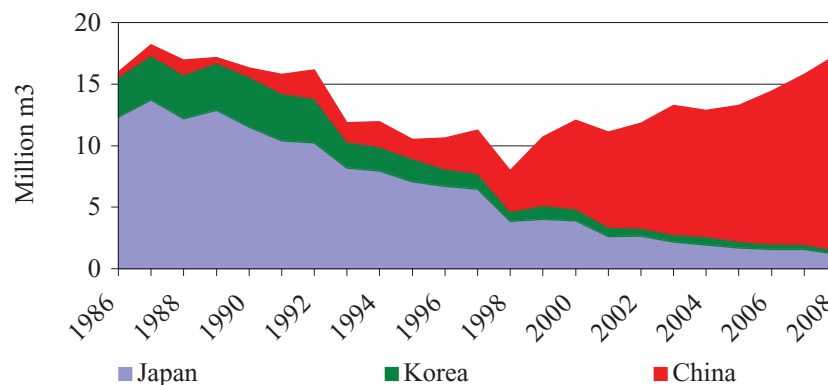
4.2.2 HARDWOODS

Over the past 20 years the level of hardwood imports into North Asia has declined slightly, at the rate of -0.1% per annum. The biggest change is the shrinking importance of Japan and the increasing dominance of China since 1998, mirroring the situation with Softwoods (Figure 4.12).

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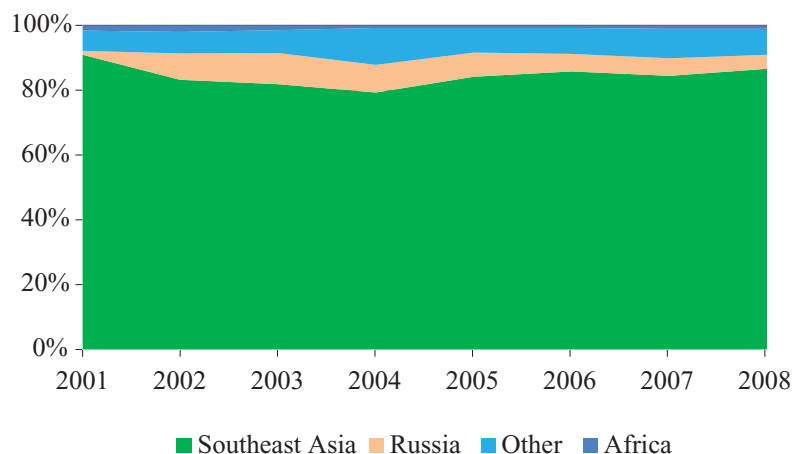
Figure 4.12 NORTH ASIA HARDWOOD IMPORTS



Source: RISI, WTA

Malaysia currently occupies the position as dominant supplier with about 60% of the trade. Papua New Guinea (PNG) and the Solomon Islands would be the next largest supplier, followed by Russia.

Figure 4.13 MAIN HARDWOOD EXPORTERS TO NORTH ASIA



Source: RISI, WTA

Note South East Asia includes PNG and Solomon Islands

4.2.3 SUMMARY

The key findings from this section are:

- Imports into North Asia since 2000 have increased by 11%;
- China is the dominant importing country for both hardwoods and softwoods;
- Softwoods dominate the trade;
- Russia is the dominant supplier;

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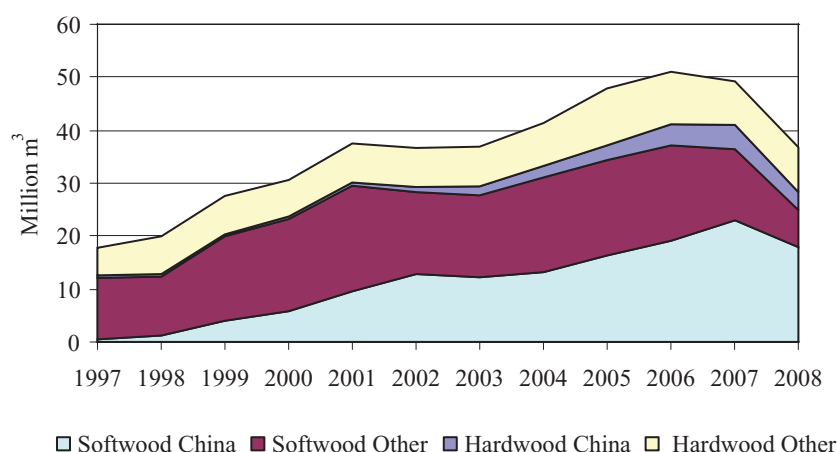
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- There is sufficient softwoods to meet future demand but at a higher cost;
- There are insufficient hardwoods to replace the declining South East Asian resource;
- Africa and South America will provide some short term supply; and
- Softwoods will substitute for some existing hardwood uses.

4.2.4 RUSSIA

Imports from Russia have provided the raw material to supply China's growing wood products industries and is the major source of raw material to help meet China's wood deficit. China is a very significant market for Russian logs (Figure 4.14). The decline in Russian log exports during 2008 is a result of the increased log export tax.

Figure 4.14 RUSSIAN LOG EXPORTS



Source: RISI, WTA

Exports from Russia to the Pacific Rim are produced from eastern Siberia and the Russian Far East. Both these regions have vast forest resources as is summarised in Table 4.1.

Table 4.1 FOREST AREA AND GROWING STOCK

Species	West Siberia		East Siberia		Far East		Total	
	Forested Area Million ha	Growing stock Billion m³	Forested Area Million ha	Growing stock Billion m³	Forested Area Million ha	Growing stock Billion m³	Forested Area Million ha	Growing stock Billion m³
Coniferous	56.3	6.8	180.2	24.9	199.7	17.6	436.2	49.3
Hard Deciduous					10.6	0.9	10.6	0.9
Soft Deciduous	21.7	2.8	31.2	2.8	12.7	0.8	65.6	6.4
Total	78.0	9.6	211.4	27.7	223.0	19.3	512.4	56.6

Source: DANA LTD

The gross annual allowable cut (AAC) for the region is shown in Table 4.2. These figures do not necessarily represent the commercially exploitable AAC. The commercially exploitable AAC could be as low as 50% of the total AAC. This is primarily due to the lack of roads and transport infrastructure to access the timber, the distance from market and the cost of harvesting.

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Table 4.2 AAC BY SPECIES GROUPING (million m³)

	1988	1992	1995	1998	2000	2002	2004	2005
Softwood								
Siberia	136	100	112	113	113	112	110	112
Far Eastern FO	87	58	81	79	78	78	76	75
Total Softwood	223	158	193	192	191	190	186	187
Hardwood								
Siberia	81	69	80	81	81	82	81	83
Far Eastern FO	18	11	16	15	15	13	15	15
Total Hardwood	99	80	96	96	96	95	96	98
Hardwood and Softwood								
Siberia	216	169	193	194	194	194	192	194
Far Eastern FO	105	69	97	94	93	90	90	90
Total Hardwood and Softwood	321	238	290	288	287	284	282	284

Source: DANA LTD

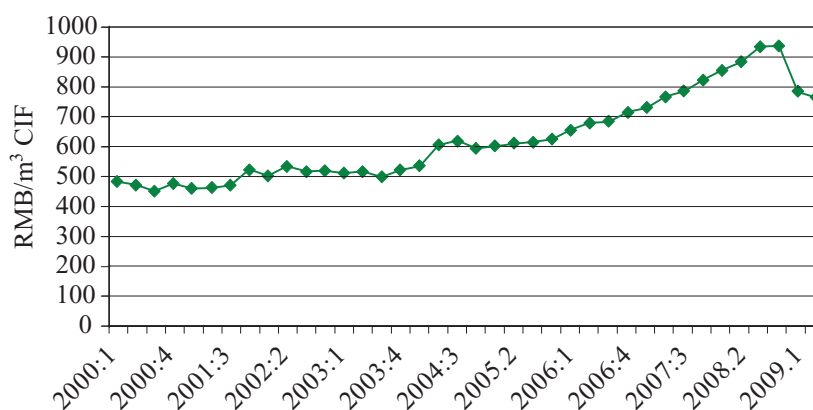
In 2007 RISI calculated that the actual harvest in 2006, of about 85 million m³, is very close to the current economic AAC once illegal logging is taken into consideration.

Access to the vast timber reserves would require expenditure on developing suitable roading networks, replacement of an ageing fleet of railway rolling stock and construction of new railway lines. At the present point in time neither the government nor the private sector appears willing to make the type of investment needed in the regions.

Shortage of potential supply will not be an issue for Russia; the limiting factor will be the cost and logistics of accessing the resource.

The price of Russian larch logs landed in China has increased by about 7% per annum from the beginning of 2000 through until the second quarter of 2008. Log prices fell by about 16% during the first half of 2009.

Figure 4.15 RUSSIAN LARCH LOG PRICES 2000 Q1 — 2009 Q3



Source: RISI

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In late 2006 the Russian government announced a new, regularly changing and ever increasing log export tariff was originally to be implemented during the 2007-2008/9 period. The tariff regime commenced on 1 January 2007 at €6/m³ (or 10% of log value whichever is the greater), rising through a series of intermediate steps up to a minimum of €50/m³ (or 80% of log value whichever is the greater) in 2009. Despite initial scepticism that the tariff regime would not be implemented, to date the tariff increases have been put in place with only one or two small exceptions.

In late 2008 the Russian government announced that the final phase in of the tax would be delayed due to the global financial situation. As yet no date for its introduction has been announced.

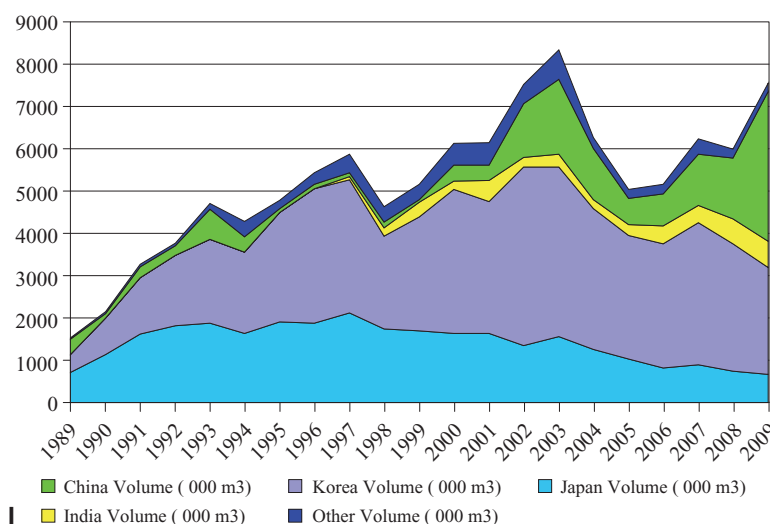
The impact of the tariffs will be to add additional cost to the log exporters, some of which can be absorbed but some of which will unavoidably flow through into higher log prices.

4.2.5 NEW ZEALAND

New Zealand is the second largest supplier to China, but a long way behind Russia. New Zealand's log exports in the Pacific Rim have not increased as dramatically as those from Russia.

After the domestic market the main destination for New Zealand logs is Korea, followed by China and Japan (Figure 4.16).

Figure 4.16 EXPORTS OF LOG PRODUCTS FROM NEW ZEALAND



Source: MAF

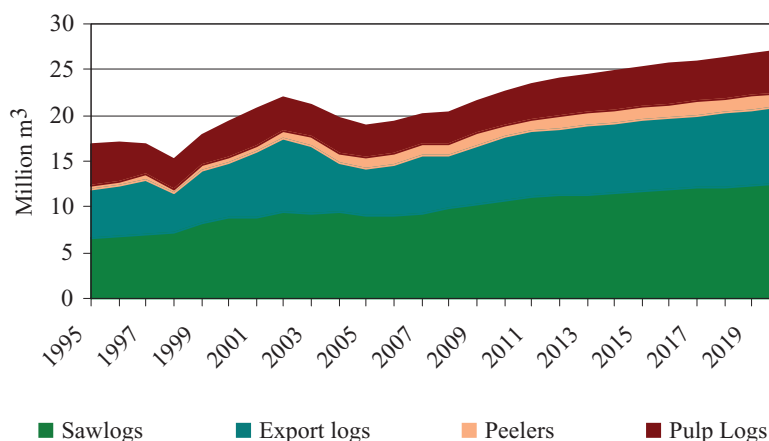
Japan's share when measured by value is slightly higher than China, as it imports more higher value logs than China. New Zealand has in recent times been less competitive than Russia in China, although the impact of the log export tax could well change this picture, particularly if the full Russian tax regime is implemented.

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New Zealand's expected harvest is shown in Figure 4.17. Log supply is expected to increase at the rate of about 2.5% per year through until 2020. Within that annual average however New Zealand has the capacity to increase harvest levels in the short term at a faster rate than this.

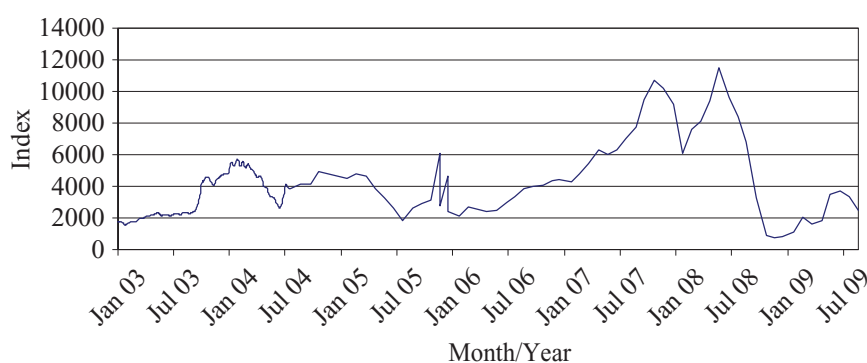
Figure 4.17 HISTORIC HARVEST AND PROJECTED LOG AVAILABILITY



Source: RISI Softwood Log Trade 2007

The most significant factor in the cost and volume of log supplies from New Zealand to North Asia has been the increase in freight rates. Figure 4.18 shows the movement in the Baltic Freight Index for Handysize vessels, which are used to transport logs from New Zealand.

Figure 4.18 BALTIC FREIGHT INDEX



Source: Bloomberg

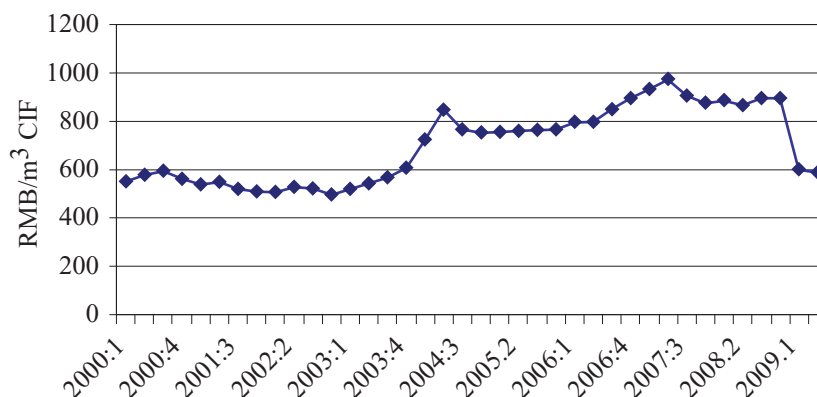
The index has increased at an annual rate of nearly 40% since 2002. The freight index fell dramatically in October 2008 falling from 3,217 to 851 (a fall of 74%). In the immediate term this will improve exporters margins, but as Figure 4.19 shows this has quickly resulted in lower imported log costs in the short to medium term.

The prices of New Zealand export logs have increased steadily throughout the first part of the decade. The average rate of increase has been about 6% per year.

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Figure 4.19 NEW ZEALAND RADIATA PINE LOG PRICES 2001 Q1 — 2009 Q2



Source: RISI

4.2.6 OTHER SUPPLIERS — SOFTWOODS

The principal other suppliers are:

Softwoods

- **USA**

Two main regions supply softwood logs into North Asia — Alaska and The Pacific North West (Washington, Oregon). After a period of decline log exports have now stabilised at around 3-4 million m³ pa. The current weakness in the US housing market may contribute to some short term rise in log exports, but this will likely fall back in the next decade on the back of a stronger US housing market.

- **Canada**

During the first half of this decade log exports from Canada (British Columbia) to the Pacific Rim averaged about 2 million m³ per year. Recent sawmill closures have reduced logging activity, and total harvest levels, and consequently the volumes available for export have reduced.

The volume available for export is restricted due to a ban on exporting logs from publicly owned land, although it is permitted from privately owned land. In the short term, slightly higher volumes may be available before dropping back to between 1.5 – 2 million m³ per year.

- **Australia**

The Australian softwood harvest is predicted to be relatively flat in the short to medium term, and may even decline in the longer term due to the focus on establishing Eucalypt pulpwood forests and the replanting of some softwood forest with Eucalypt after harvest.

Log exports from Australia have generally been confined to the lower value saw/pulp logs. Log exports are unlikely to change materially from their current levels without a

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major collapse of the Australian sawmilling industry. Lumber exports have generally been confined to the lower value packaging grades, with the higher value structural and appearance grades being used domestically.

4.2.7 OTHER SUPPLIERS — HARDWOODS

- **Malaysia**

Malaysia's tropical hardwood export logs are primarily sourced from natural forests managed under a series of forest concessions. Nearly all come from Sarawak, and to a lesser degree Sabah on the island of Borneo. There is some concern that the harvest from Sarawak and Sabah exceeds the assessed sustainable yields.

The forests on the Peninsular have been fully exploited in the past and now are either reserves or supply local manufacturers.

Barring large scale conversion of natural forest to either forest plantation or Palm Oil plantations, there appears to be little if any scope for Malaysia to increase the level of log exports. Indeed it is unlikely that the current levels can be maintained in the medium term.

- **Papua New Guinea**

Nearly all Papua New Guinea's log exports come from natural forests managed under a series of concessions. There are some hardwood plantations, most notable of *Eucalyptus deglupta*, which supply logs particularly to Japan for the plywood industry. FAO has assessed that the growing stock of PNG's natural forests has declined over the past 5 years. It is generally accepted that PNG's current logging practices are unsustainable, but implementing soundly based harvesting controls is hindered according to FAO by inadequate national forest inventory and mapping systems as well as endemic corruption. In 2006 the World Bank estimated that about 70% of PNG's timber volume was harvested illegally. More recently the PNG Prime Minister announced an intention to ban log exports in favour of more domestic processing.

It is highly unlikely that PNG's current levels of harvest are sustainable in the medium term and as proper sustainable management practices are put in place costs are going to increase and available volume reduce, without accounting for the historic overcut.

- **Gabon**

Gabon has one of the lowest deforestation rates in Africa. It is in the process of implementing sustainable management plans for both the industrial forest concession holders and the community based logging operations. The process is hindered by the lack of quality forest inventory and an understanding of the growth and regeneration of the forests following a selective harvest. Suffice to say that without sound and sustainable management practices and an understanding of the

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resource it is highly likely that the resource is being harvested above its sustainable level. The introduction of sustainable management practices is likely to increase the production costs and underpin log prices.

- **Myanmar**

Obtaining a clear understanding of the forest resource, production levels and sustainability for Myanmar is almost an impossible task. The country has a long history and good understanding of Teak silviculture and has a system of annual allowable cuts for both Teak and other hardwoods. Official harvest volumes are in line with the allowable cut, however the World Bank estimates that about 50% of the timber harvest in Myanmar is illegal. It is highly unlikely that log supplies from Myanmar will increase, in fact if the regional initiatives to combat illegal logging are successful volumes may fall.

- **Congo, Republic of**

Forests in the southern part of the Congo have suffered from a history of over cutting, clearing for agriculture, and fire. Due to the recent history of civil unrest over the last decade there is little understanding of the country's forest resource. While there is a legal framework for the awarding and management of concessions, it is usually not enforced due to a lack of information on the resource and a general institutional weakness in the various forestry departments charged with implementing the policy. It is likely that as more is known about the resource volumes produced from the existing concession will decline although new areas could be opened up for management. It is highly probable that the production costs will increase as the management requirements increase.

- **Germany**

Germany accounts for less than 5% of China's log imports. Historically these exports have been beech, but more recently volumes of oak logs have increased. It is possible that logs reportedly exported from Germany include logs from forests in Eastern Europe and simply consolidated in a German port. Although traditionally Europe has not been a significant exporter of logs, with most of the production consumed internally there is potential to increase supply from the region. Most of the hardwood logs exported to China have been lower quality logs suitable for flooring. It is unlikely that the increase will be sufficient to replace the drop in volume from South East Asia. Import prices of European Beech and Oak logs could well provide a price cap for Chinese produced hardwoods.

- **USA**

Hardwood logs from North America are primarily supplied from the USA. These logs are now predominantly high grade logs suitable for producing sliced veneer. These logs are often transported to China in containers, taking advantage of the cheaper repositioning rates. It is likely that supplies from the USA will increase as supplies of high quality hardwoods from Russia decline.

4.2.8 SUPPLY SUMMARY

- Cost pressure on log imports is going to increase, underpinning imported log prices.

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Softwoods

- Russia has significant forest resources but is hindered by a lack of suitable infrastructure, ageing railway rolling stock and the need to upgrade the logging equipment.
- New Zealand has additional supplies, but freight costs will determine the price and volume supplied into the market.

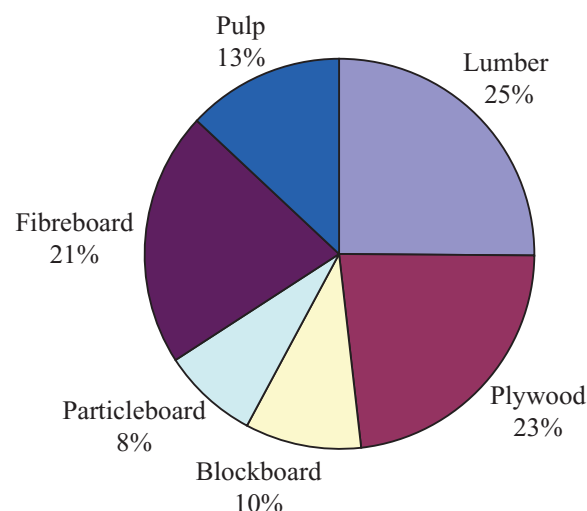
Hardwoods

- The ability of the existing exporting countries to continue to meet the North Asian hardwood deficit is limited.
- Supplies of South East Asian hardwoods will decline.
- There is potential for supplies from Africa to increase in the short term but probably not in the medium term.
- Supplies of temperate hardwoods from Europe could assist in replacing some of the tropical hardwood supply.
- Supplies of high quality hardwoods from the USA could offset the decline in high quality hardwoods from the Russian Far East.

5. CHINA FOREST PRODUCTS MARKET

Firewood remains the dominant use for wood accounting for an estimated 58% of the total wood removals. The balance can be considered industrial wood. There are two basic categories of industrial wood. The first category consists of posts, poles and unprocessed wood used in construction and for rural wood use (excluding firewood). Most of this category of industrial wood does not enter the industrial supply chain as it is often acquired, processed and used by individuals and not re-sold or marketed through traditional channels. The second category of industrial wood refers to wood that is utilised in the manufacture of processed products (e.g. plywood, lumber, pulp and paper). Figure 5.1 shows the second category of industrial log demand in China in 2008.

Figure 5.1 CHINESE INDUSTRIAL LOG DEMAND BY SECTOR (2008)



Source: SFA, CFK

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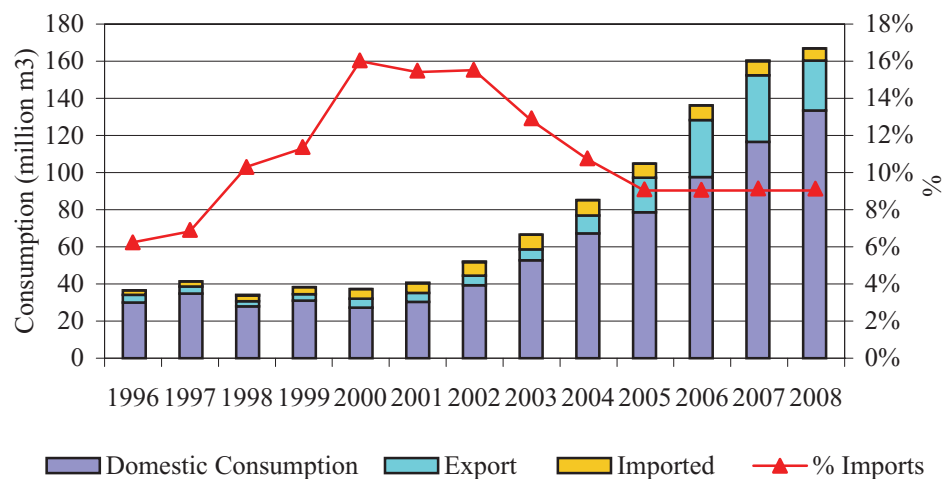
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Figure 5.1 shows that panel production accounts for almost 62% of the industrial wood consumption in China. This is in contrast to other wood consuming regions of the world where lumber consumption is usually dominant, and underscores the sector's reliance on the plywood industry followed by the reconstituted panels industry.

5.1 LOG DEMAND

Wood consumption in China has increased steadily since 2000. Figure 5.2 shows the consumption of wood products during the period 1996 through to 2008. In Figure 5.2 domestic consumption refers to logs consumed in China; and exports and imports refer to log and primary processed products (e.g. lumber) and not total wood exports including finished products.

Figure 5.2 CHINESE WOOD CONSUMPTION 1996 TO 2008



Source: RISI China Wood Products Study 2006
RISI China Timber Supply Outlook 2008 SFA, UNCE, CFK analysis

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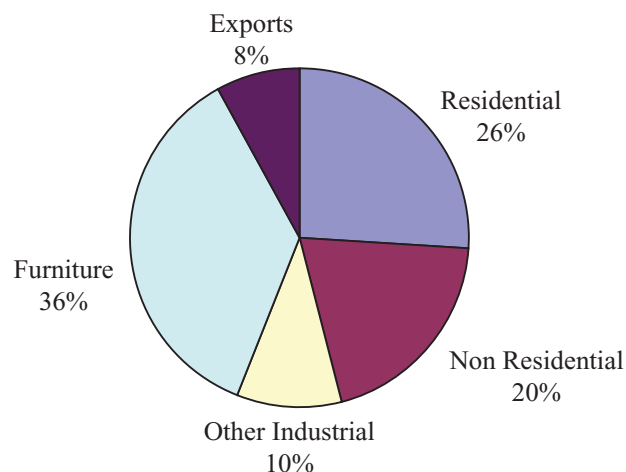
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5.1.1 DOMESTIC CONSUMPTION

Solid Wood

Solid wood products are primarily utilised in the furniture industry followed closely by residential and commercial construction (See Figure 5.3).

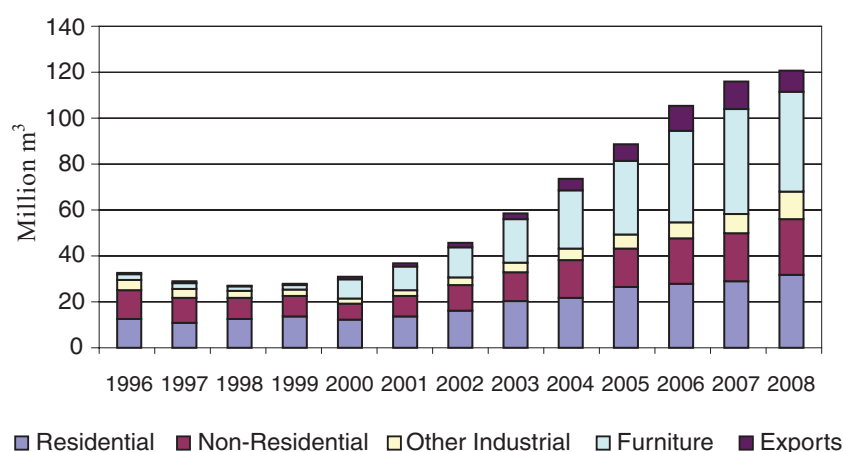
Figure 5.3 SOLID WOOD CONSUMPTION BY END USE SEGMENT 2007



Source: SFA, CFK

The level of wood consumption in China reflects strong growth in furniture production (and exports of finished products), and in residential and commercial construction. As construction and furniture manufacture increased so did the consumption of solid wood products (See Figure 5.4).

Figure 5.4 CONSUMPTION OF LUMBER PLYWOOD AND BLOCKBOARD



Source: RISI, SFA, CFK

The manufacture of wood products for export played only a minor role in the increasing consumption.

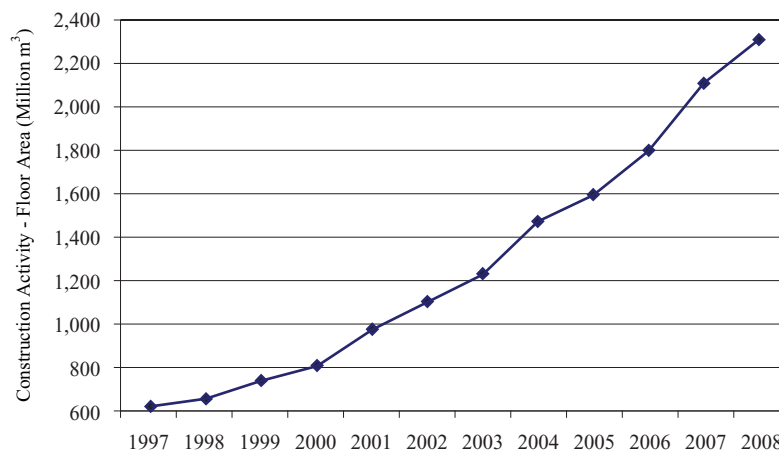
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Construction

The level of construction activity has increased significantly in the past decade with the floor area under construction increasing by about 14% per annum over the period 1997 to 2007, and has been increasing at the rate of 17% per year since 2001 (See Figure 5.5).

Figure 5.5 CONSTRUCTION ACTIVITY — COMPLETED FLOOR AREA (Million m²)

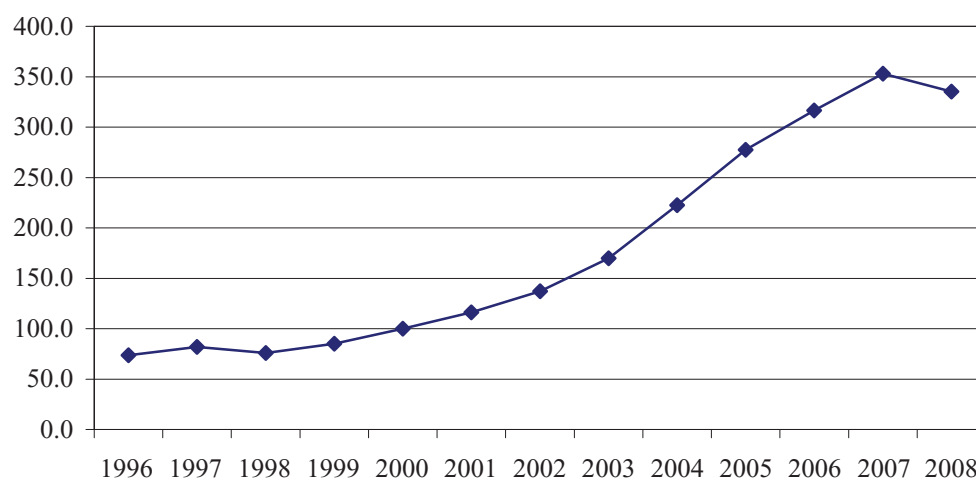


Source: CEIC Data

Furniture

The furniture industry has undergone dramatic growth over the last 10 years. Whilst the pace of growth has slowed the sector still expanded at the rate of over 10% in 2007. The global financial crisis had its impact during 2008 with production falling back. (See Figure 5.6).

Figure 5.6 FURNITURE PRODUCTION INDEX (Index 100 in 2000)



Source: SFA, CFK Analysis

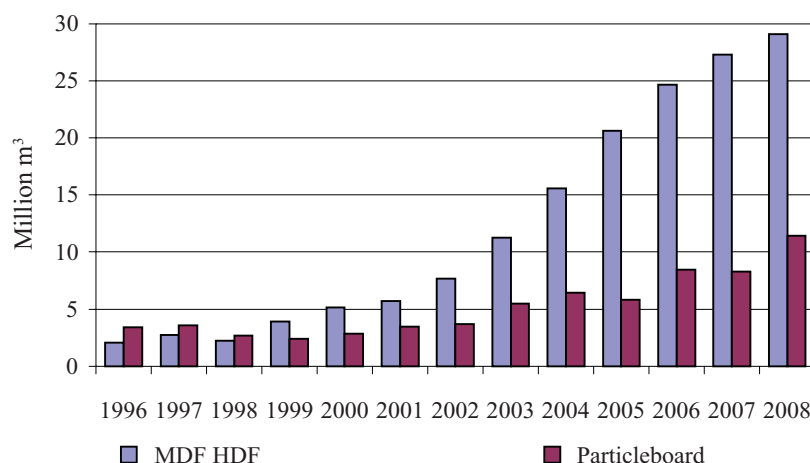
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Reconstituted Panels

The production of MDF, HDF and Particleboard, like the production of most forest products in China, has undergone rapid expansion. The production of MDF and HDF in the period between 1996 and 2007 expanded at the rate of 27% per annum, while particleboard expanded at the more modest rate of 9% per annum (See Figure 5.7).

Figure 5.7 PRODUCTION OF MDF HDF AND PARTICLEBOARD

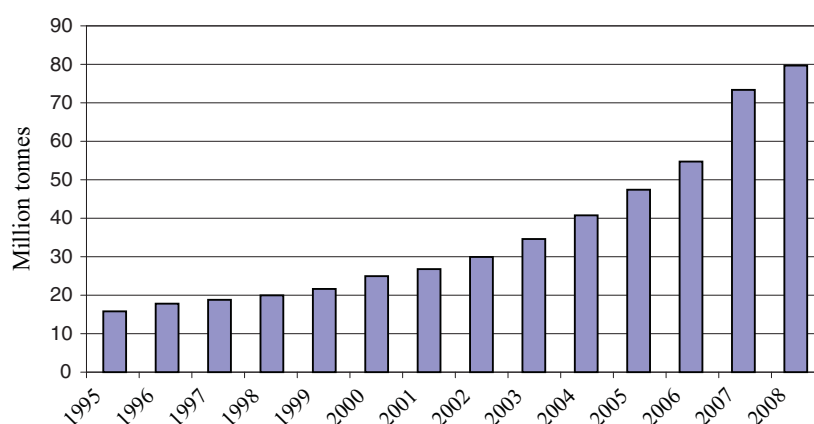


Source: RISI Softwood Log Trade 2007, SFA

Paper and Paperboard

The production of pulp and paper board has increased by an average of 12% per annum over the period 1995 through to 2007. This is particularly impressive when you consider the size of the industry — China is now the second largest producer of paper in the world behind only the United States; its output is more than double that of Canada and three times that of Finland. During the decade ending 2004 the increase in paper production in China was greater than that of the next 10 top producers combined. It is expected that this increase in production will continue for another decade and will drive demand for raw pulp and imports of kraft pulp.

Figure 5.8 PRODUCTION OF PAPER AND PAPERBOARD



Source: RISI, China paper online

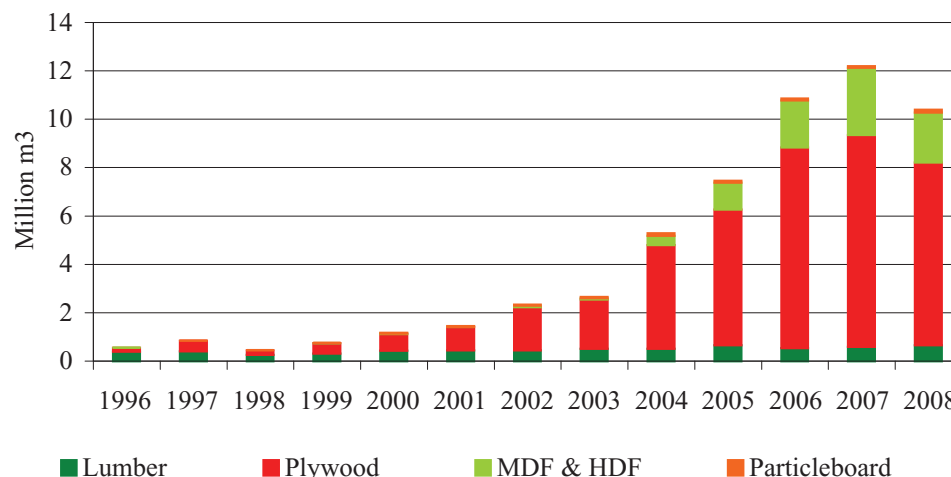
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5.1.2 EXPORT OF FINISHED GOODS

The export of wood products has increased at an annual rate of 33% over the past decade. This is taking advantage of China's competitive advantage as a low cost producer, to import raw logs and manufacture wood products for re-export (See Figure 5.9)

Figure 5.9 EXPORT OF FINISHED WOOD PRODUCTS



Source: WTA

5.2 DOMESTIC LOG SUPPLY

In China, domestic log supply is ultimately governed by the planted area and standing volume of the resource. Any increases in the planted area and standing volume will ultimately feed into allowable cut calculations.

5.2.1 FOREST RESOURCES

Every five years China's national forest inventory is published. The most recent inventory was the 6th National Forest Inventory which was completed in 2003, with the next inventory due to be completed in 2008. The results are yet to be published. Table 5.1 sets out the forest area according to the 2003 inventory.

Table 5.1 FOREST AREA (million hectares)

	1998	2003	% Change
Plantations			
Timber Producing	24.2	23.2	-4%
Protection	4.2	8.1	93%
Fuelwood/Other	0.8	1	25%
Economic ⁽¹⁾	20.2	21.4	6%
Total Plantations	49.4	53.7	9%
Natural Forest			
Timber Producing	75.2	55.4	-26%
Protection	17.2	46.6	171%
Fuelwood/Other	7.6	8.4	11%
Bamboo	4.2	4.8	14%
Natural Forest Total	104.2	115.2	11%
Total Plantations and Natural Forest	153.6	168.9	10%

Source: China National Forest Inventory.

Note: (1) Primarily fruit and nut trees.

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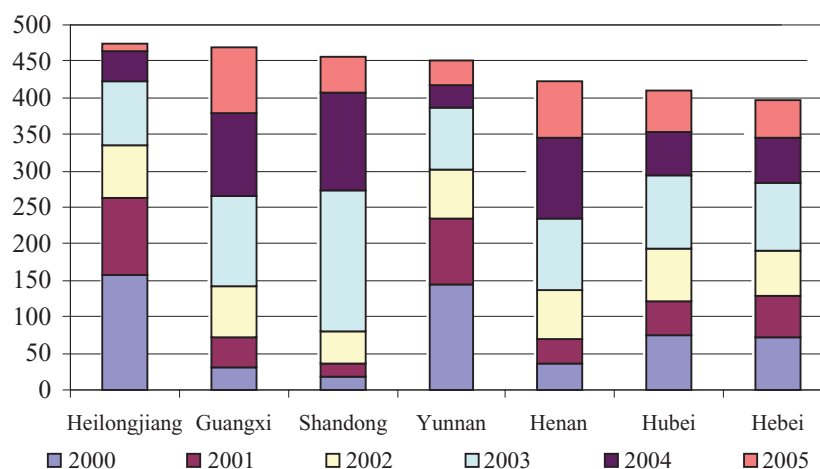
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China's timber producing area actually declined between 1998 and 2003, primarily on the back of a reduction in the area of natural forest designated for timber production.

Of the new plantations established between 1998 and 2003, only 16% were designated for timber production, 69% were for protection, another 14% economic forests (fruit and nut and other non timber products), and 1% for fuelwood.

The establishment of plantations between 2000 and 2005 has shown that Shandong, Guangxi and Henan provinces have had an increasing amount of activity. This can be put down to the increased planting of plantations by large commercial operators.

Figure 5.10 TIMBER PLANTATION ESTABLISHMENT 2000-2005 (Million hectares)



Source: RISI

5.2.2 LOG SUPPLY

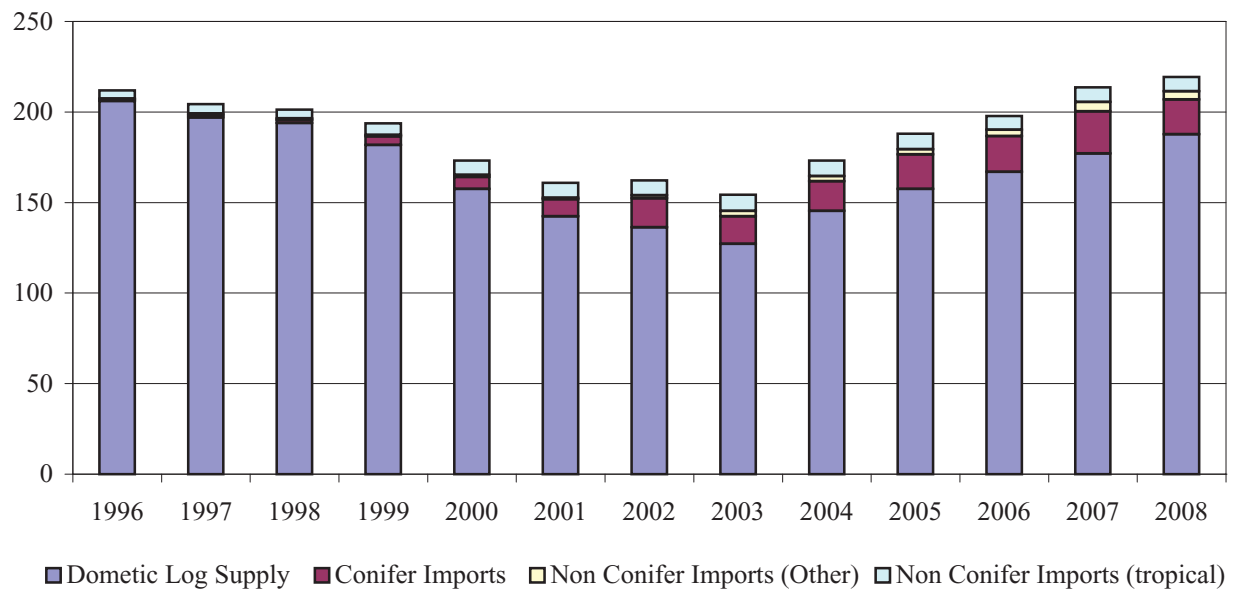
Obtaining reliable estimates of wood removals can be difficult with a number of conflicting sources and opinions. What is known is that the annual industrial-wood harvest exceeds the national allowable cut estimate by some margin. After reviewing the information provided by a number of commentators experienced in understanding the wood supply situation in China, CFK has come to the conclusion that the allowable cut represents about 25% of the industrial-wood harvest in any one year.

Accordingly, the allowable cut information provided by the State Forestry Authority is grossed up to provide an estimate of the national industrial log production. When combined with log exports, the figures represent the total roundwood volume available for industrial use. Figure 5.11 shows the available industrial roundwood in China from 1996 until 2008.

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Figure 5.11 ROUND WOOD SUPPLY



SOURCE: SFA, FAOSTAT, CFK analysis

The key points to note from Figure 5.11 are:

- The decline in domestic supply from 1996 to 2003 (1.4%/yr);
- The increase in conifer imports (155%/yr); and
- The increase in non-coniferous imports.

It is unlikely that China's domestic log production will be able to increase fast enough to keep pace with the increasing demand. The pattern of the last few years is likely to continue with a gradual increase in domestic supply combined with a more rapid increase in log imports.

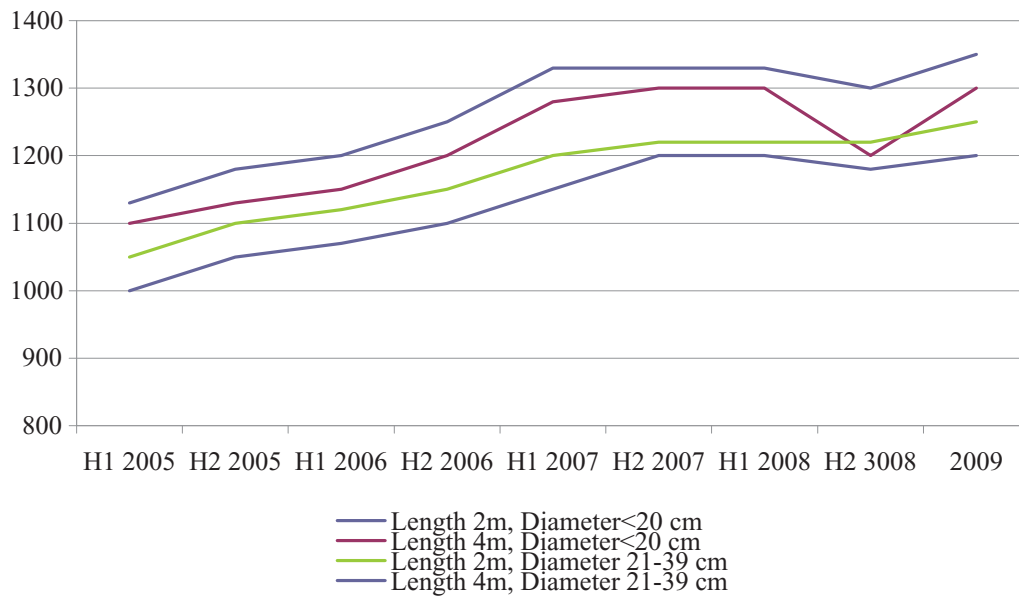
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5.2.3 LOG PRICES

In Sichuan province log prices have increased by on average 9% per annum. Figure 5.12 shows the movement in log prices by log length and diameter. There is a small price differential for log size (diameter) and also log length.

Figure 5.12 SICHUAN CHINESE FIR LOG PRICES (AMG RMB/m³)



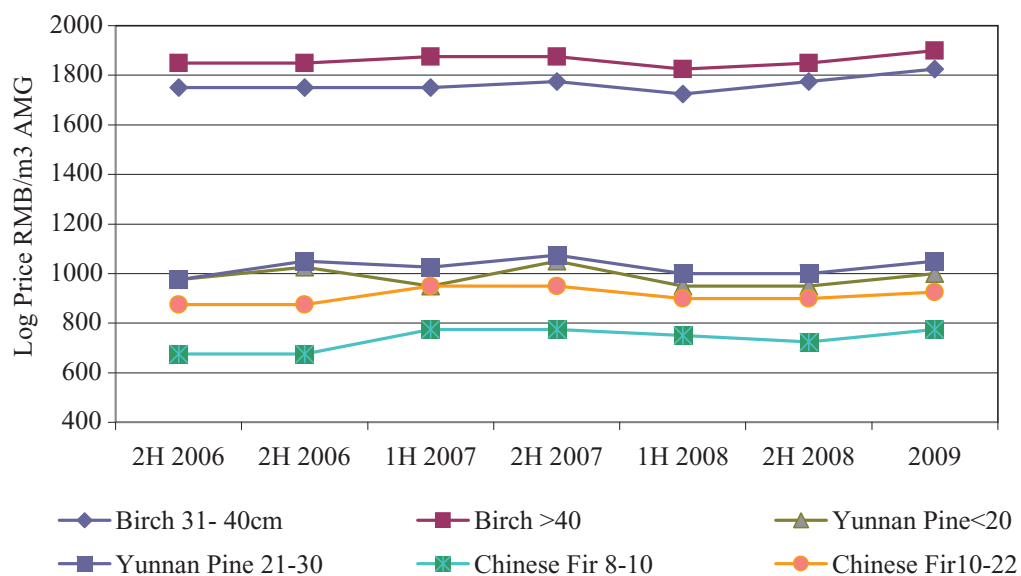
Source: CFK Industry Sources

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Yunnan province log prices have been more stable than those in Sichuan. Figure 5.13 provides a comparison of prices for Birch, Yunnan Pine and Chinese Fir prices for 4 m logs between 31 and 40 cm in diameter. In order to provide the comparison CFK has derived a Chinese Fir log price as there was no market information for larger diameter Chinese Fir. In Yunnan most of the Chinese Fir that is sold is between 8 and 20 cm diameter.

Figure 5.13 YUNNAN LOG PRICES (FOREST GATE RMB/m³)

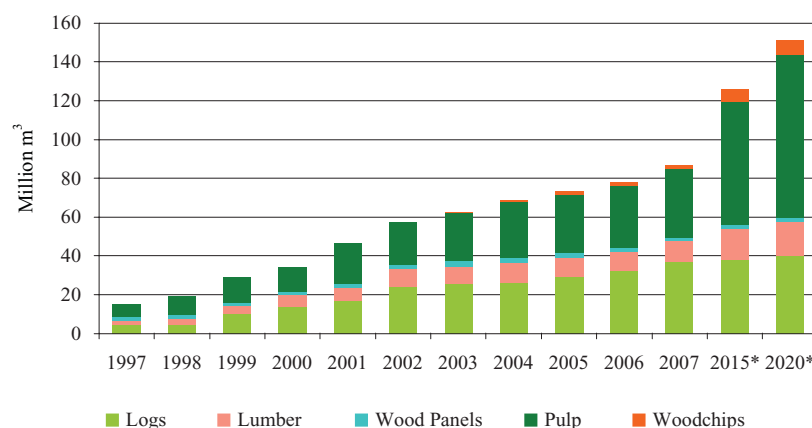


Source: CFK Industry Sources

5.3 ROLE OF IMPORTS

Imports of raw materials (logs and wood chip) and primary processed products (lumber, wood based panels and pulp) are expected to continue to increase in meeting China's growing wood deficit.

Figure 5.14 CHINA'S WOOD DEFICIT (million m³ roundwood equivalent)



* Forecast Figure

Source: RISI

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China has a relatively high demand for sawlogs but, as discussed in the supply section, the options for additional supply are relatively limited. Instead China will import an increased volume of primary processed solid wood products. The significantly increased volumes of imported market pulp are a consequence of few available sources of wood chips in significant quantities, but increased availability of market pulp on the back of the expansion in capacity in Latin America and Australia.

Since 2000 China's imports have grown at a rate of over 8% per annum, however exports have increased at a staggering 46% per annum. Domestic consumption has been increasing at an annual rate of 23%.

5.4 KEY MARKET DRIVERS

5.4.1 DEMAND

Residential Construction

- China has a policy of increasing the average living space from 20 m² in 2000 to 30 m² by the middle of the century;
- Increasing urbanisation — in 1987 about 25% of China's population lived in urban centres, by 2007 it had risen to 43%. Urbanisation had been increasing at the rate of 2.5% per annum, but is expected to fall to around 2% per annum over the medium term;
- Increasing household wealth and per capita GDP increases householder expectations, leading to larger dwellings, upgrading of fittings and furnishings; and
- The sector is likely to consume less wood products per m² but total consumption will increase.

Non-Residential Construction

- Closely linked with increase in GDP;
- Projected rate of increase is likely to slow in the short term as this has increased faster than the increase in GDP; and
- Will consume less wood per m² but total consumption will increase.

Furniture Production

- Level of exports in total will increase:
 - Furniture production will become increasingly higher value as commodity type furniture is manufactured in other parts of Asia (e.g. Vietnam);
 - US share of exports will decline but will move towards higher value products;
 - Volume increase will come for markets in Europe and the Middle East; and

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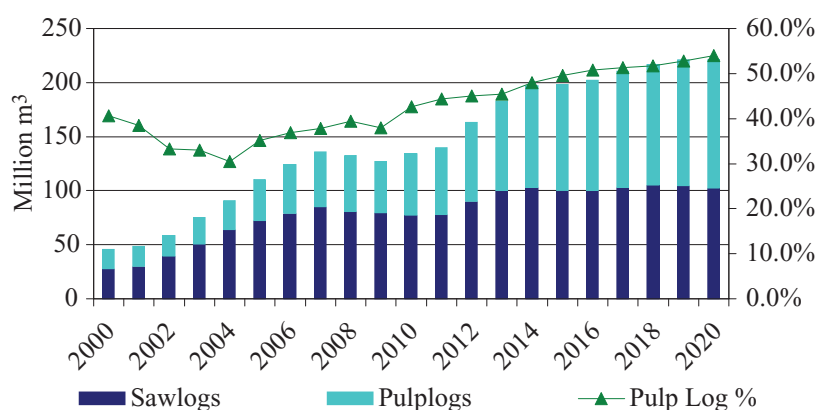
- The proportion of wood used in furniture is likely to increase as will total volume consumed.
- Increased construction of residential dwellings (size and number) will increase demand; and
- Increased household wealth will increase furniture demand both in type and quantity.

Industrial Production

- Industrial production is closely associated with GDP and the level of exports;
- GDP is anticipated to increase although at a slower rate than in recent years; and
- Exports will increase, increasing demand for packaging.

In its 2007 China wood market study, RISI predicted increasing demand for sawlogs (See Figure 5.16).

Figure 5.16 CHINA DEMAND FOR SAWLOGS AND PULPLOGS 2000-2020



Source: RISI, CFK analysis

The study predicted an increase in sawlog demand by an average of 2.4% per year during the period 2005 to 2020, and an increase in demand for pulpwood of 12.6% per year. The global financial situation has had a significant impact.

5.4.2 SUPPLY

Domestic

- China’s domestic log supply will increase due to:
 - The increasing establishment of fast growing plantations; and
 - The maturity of China’s already established “young” and “middle-aged” forests.

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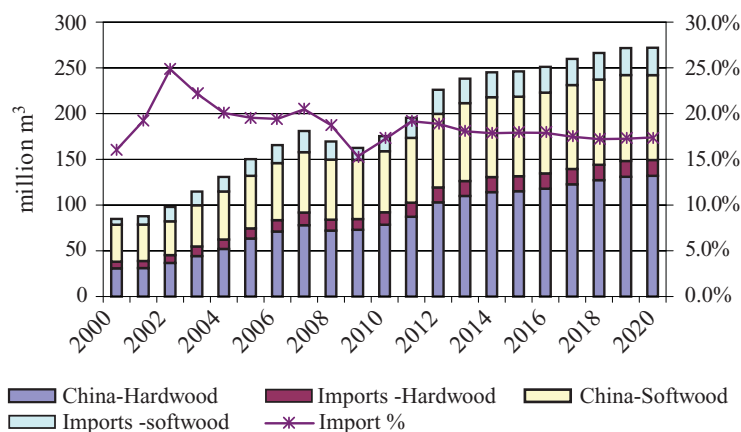
- The increase will be offset by the increasing reclassification from timber producing to protection (particularly natural forests).

International

- Unless the infrastructure issues are addressed in the Russian Far East and Siberia the wood supply is likely to reduce;
- The Russian export tax will reduce log supply (replaced by primary processed product) and increase the cost of logs;
- North America is unlikely to be able to supply significant additional quantities of logs;
- New Zealand will be able to supply additional log volumes, but its distance means they will be at a higher cost. Shipping costs will have a major impact on future supplies and cost;
- Availability of South East Asian hardwood logs will reduce; and
- Supply of hardwood logs from Africa could increase in the short term as new operations commence. The medium to long term supply remains doubtful and distance indicates that supply is likely to be higher cost than the closer South East Asian logs.

China is forecast to be dependent upon log exports for about 17% of its roundwood requirements. This is a similar level to 2000 but the total volume is higher.

Figure 5.17 CHINA — DOMESTIC AND INTERNATIONAL SUPPLY



Source: RISI, WTA, CFK analysis

There will be difficulty in securing adequate quantities of good hardwood logs.

Both Russia and New Zealand have sufficient softwood logs to meet any increase in demand, but it is probable that any increase in supply will come at higher prices.

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5.4.3 POSSIBLE IMPACT OF SUPPLY/DEMAND ON LOG PRICES

China is likely to rely on imports of forest products for the foreseeable future. Imports of logs and primary processed forest products are likely to come under increasing cost pressure due to distance and increasing costs of production in the main exporting regions.

In a recent Pacific Rim outlook study RISI projected the following softwood log prices from 2007 through until 2012. CFK has Updated these projections for the impact of the financial crisis and provided an indication of possible log prices through until 2020 based on its view of the key log price drivers. These prices are presented in USD/m³ as opposed to RMB/m³ as this is how the exporters price their logs.

Table 5.2 FORECAST LOG PRICES 2007-2020 (USD/M³ CIF CHINA PORT)

	<u>Russian Pine</u>	<u>Russian Larch</u>	<u>Radiata Pine</u>
2003	67	53	66
2004	73	65	94
2005	76	70	101
2006	89	80	105
2007	101	93	121
2008	115	106	125
2009	110	100	98
2010	130	145	113
2011	139	134	122
2012	144	130	129
2016-2020	158	145	160

Source: RISI, CFK

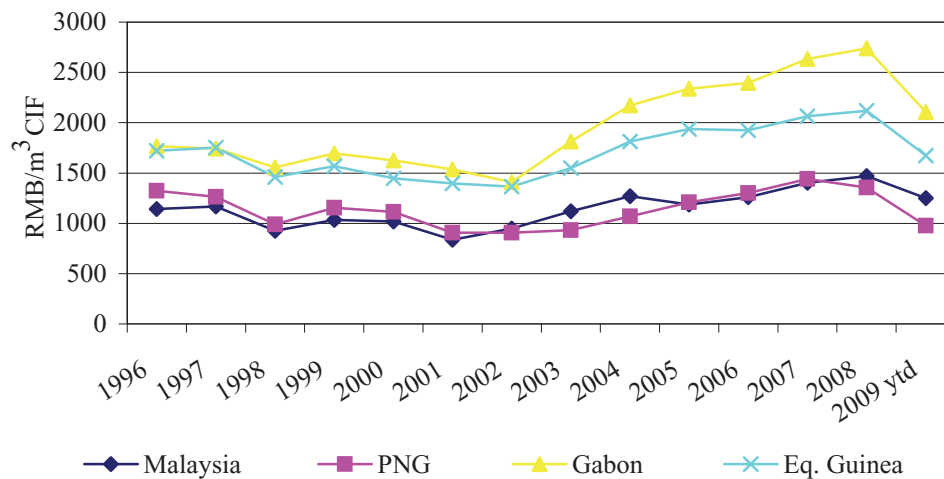
Whilst it is relatively straightforward to identify the main softwood exporters, identifying the future hardwood exporters is more problematic. Currently the main exporters into North Asia are Malaysia followed by Papua New Guinea and the Solomon Islands. What is clear is that all three exporters will not be able to sustain exports at their current levels. The only possible source of additional supply is Africa and that remains problematic at best.

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For this reason projecting hardwood log prices is a futile exercise. African log prices are currently some 67% higher than the prices of Malaysia and Papua New Guinea (See Figure 5.18).

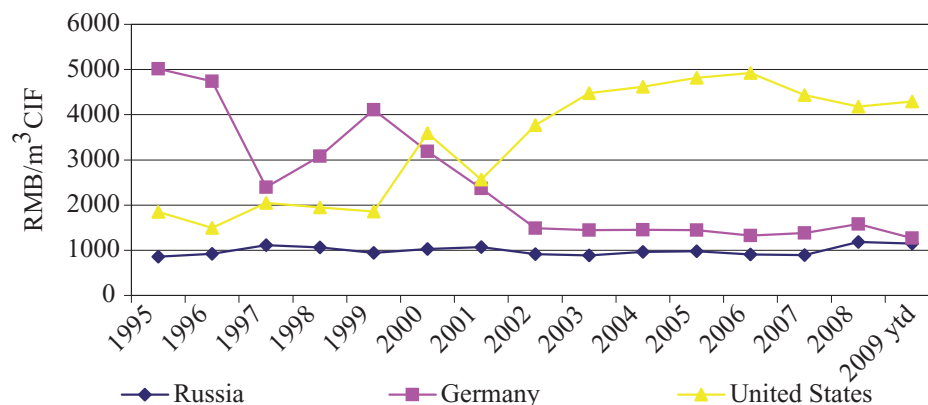
Figure 5.18 TROPICAL HARDWOOD LOGS PRICES



Source: RISI

It is clear that any increase in African supply is going to result in a large increase in the average landed cost of hardwood.

Figure 5.19 TEMPERATE HARDWOOD LOG PRICES



Source: RISI

During the latter years of this time series the USA hardwoods being imported into China were almost exclusively special purpose logs for slicing and cannot be compared to the logs from Russia and Germany.

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6. CURRENT GROUP OPERATIONS

The Group currently has forest assets in Sichuan and Yunnan Provinces. The forests in Sichuan Province have been built up over a number of years. The Yunnan forests have only been acquired in early 2008 and as a result have no operating history.

Regional Context

Both Sichuan and Yunnan provinces are located in China's Southwest region. The region has a population of 201 million of which Sichuan province has 87 million (Table 6.1).

Table 6.1 Southwest Provinces Population and Growth

<u>Province</u>	<u>Population (Million)</u>	<u>Population Growth (%)</u>	<u>GDP (Billion RMB)</u>	<u>GDP Growth (%)</u>
Sichuan	81	2.8	1,050	21.7
Chongqing	28	3.0	411	18.1
Yunnan	45	8.0	472	18
Cguizhou	37	7.4	271	19.3
Tibet Provinces	3	11.2	34	17.8
Total	<u>200</u>		<u>2,238</u>	19.9

Source National bureau of Statistics GDP, China Bureau of Statistics and Population

GDP = Gross Domestic Product

Growth rate is year on year.

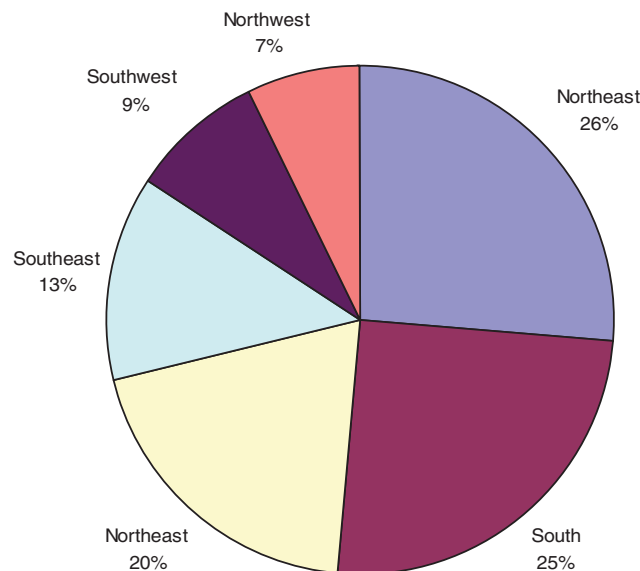
The strong growth in both GDP and population in the regions supports the demand for additional housing and increased timber consumption. It is reasonable to assume that this growth in the regional economy will continue.

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Statistics show that most of the sawn timber production capacity is located in the Northeast and Southern regions of China. The Southwest provinces account for approximately 9% of the national sawmilling capacity (Figure 6.1).

Figure 6.1 SAWN TIMBER PRODUCTION CAPACITY



Source: SFA, Industry Sources

Timber imports into the region are unlikely to be significant or competitive due to transport cost.

6.1 SICHUAN PROVINCE

6.1.1 EXISTING FOREST ASSETS

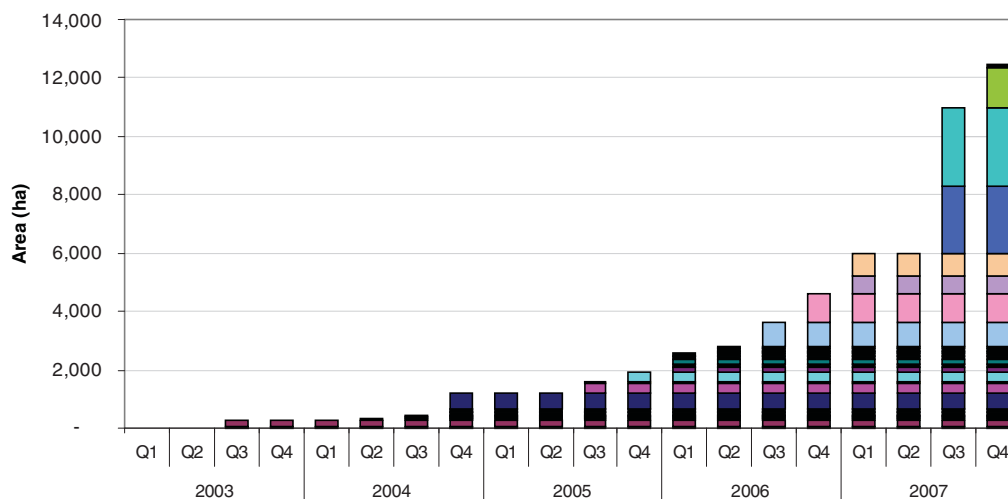
The estate consists of 28 separate forest areas located in the western regions of Sichuan Province. The forests are centred in three regions — Ya An city, Le Shan City and Liang Shan Zhou.

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The estate has been progressively acquired since mid 2003 (Figure 6.2).

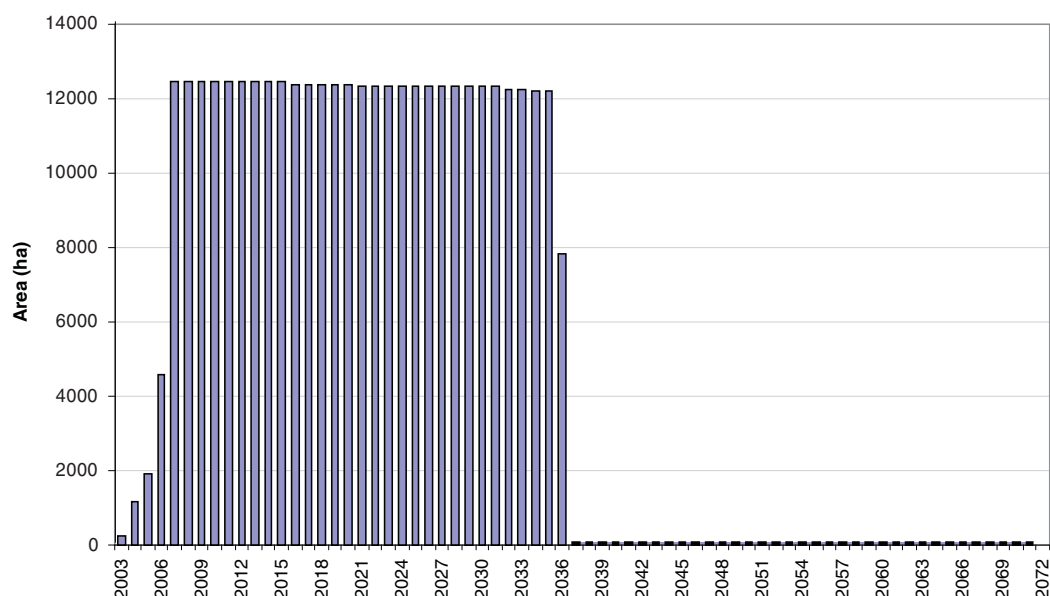
Figure 6.2 ACQUISITION HISTORY



Each forest is on land secured by way of a land use agreement with the local Village Collective, for a defined term. CFK reviewed some examples of the land tenure documents. However, it is outside the scope of this technical report and CFK is not qualified to provide a view as to the legality, validity and enforceability of these agreements. It has relied on The Group's assurance that their right to use the land and title to the trees is protected under Chinese law.

The year on year area of the estate from 2003 to year of expiry of the agreement periods is presented in Figure 6.3.

Figure 6.3 LAND USE TENURE



As a condition of tenure, the forests must be replanted following harvest.

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The forests are planted in a number of species — Chinese Fir (*Cunninghamia lanceolata*), Cedar (*Cryptomeria japonica*), Yunnan Pine (*Pinus yunnanensis*), Birch (*Beatula spp.*), and Alder (*Alnus glutinosa*).

Table 6.2 NET STOCKED AREA (hectares) AS AT 30 JUNE 2009

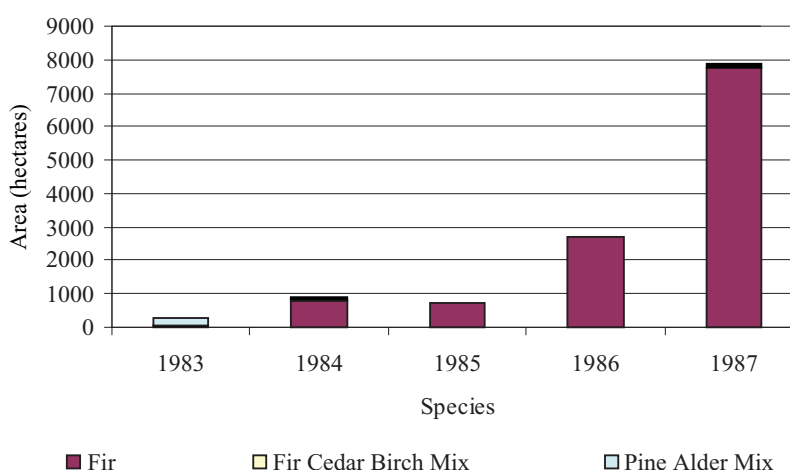
Year of Establishment	Fir	Fir Cedar Birch Mix	Pine Alder Mix	Total
1983	0	80	187	267
1984	760	62	88	910
1985	737	0	0	737
1986	2,683	0	0	2,683
1987	7,765	85	0	7,849
Total	<u>11,951</u>	<u>227</u>	<u>275</u>	<u>12,447</u>

The stocked area at 30 June 2009 is 12,453 hectares. Approximately 96% of the area is planted in Chinese Fir, the balance in a mixture of species but predominantly Fir.

The forest area was determined by the Yingjing County Forestry Bureau from maps held in Beijing by the national office. The maps were prepared by using GPS to map the forest boundaries, excluding any unplanted areas such as roads, streams, rivers etc. Due to Government regulations, CFK was not allowed to view the maps and neither has The Group because the base maps are confidential to the Government department concerned. If the process of mapping the forest as described to CFK was followed, then CFK believes that the area description is sufficiently accurate for the purposes of the valuation.

Figure 6.4 presents the area by species and planting year.

Figure 6.4 FOREST AREA BY SPECIES AND PLANTING YEAR



The forests are primarily grown to provide logs for solid wood processing.

The province generally has a well-developed roading infrastructure and all forests have access to district roads and expressways, sometimes via unsealed access ways capable of accommodating logging truck traffic.

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6.1.2 SITE VISITS AND INFORMATION

CFK visited the Sichuan forests in January and July 2008 and again in March 2009.

Information provided by The Group included a listing of forests by species, age, area, date of acquisition, land use expiry date, summarised harvest history, and a summary of inventory information.

CFK also visited The Group's offices in Beijing and reviewed a sample of the land use agreements, sales contracts, obtained information on sales history, prices received, harvesting costs, as well as access to financial information.

6.1.3 FOREST VOLUMES

The Group's forests were included within the Government inventory of 2003. The data from this inventory forms the basis of the Government's annual allocation of harvest volumes. If properly carried out according to the description provided to CFK, this inventory would provide the best possible estimate of volume.

The Group provided CFK with the summaries of the Government inventory the results of the Group's acquisition survey and their most recent (March 2008) survey, and some plot summaries for an inventory conducted by an independent local forest consulting firm, for those forests purchased prior to 2007.

During the field inspection undertaken in March 2009 CFK undertook a number of benchmark plots. As a result of this work CFK reduced the government survey yields to align them with the benchmark measurements.

CFK has concerns with the description of the Group's forests, based upon the Group's existing forest survey data. The Group needs to expand its forest information base to include spatial information, appropriate statistical analysis of survey results, a systematic procedure for reconciling actual harvest volumes with survey information, the integration of harvest areas into the forest record system, and develop a more comprehensive system to closely monitor and understand growth and yield.

CFK recommends that The Group address this issue as a matter of urgency because it underpins its ability to maximise the value from the estate.

Notwithstanding the above, the existing information that the Group holds on its forest estate contains a description of the estate as at the date of purchase, setting out the species, area, age and volume for each forest in the Group's estate. The Group has records for each forest showing the area harvested, and the volume removed for each year. The fact that most of the Group's forests have been purchased in the last 18 months limits the number of harvesting operations that have been carried out (a maximum of 1/year/forest) in the forest since the acquisition date, means that the state of the Group's forests as at the valuation date can be accurately derived from the existing information that the Group holds.

This concern must be put in the context of The Group's forest holdings as up until 2007 they only held a little over 4,000 hectares of forest and it was not until late 2007 that holdings

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increased to over 12,000 hectares. The Group now has a sufficient base in Sichuan to obtain more comprehensive yield information than is currently available.

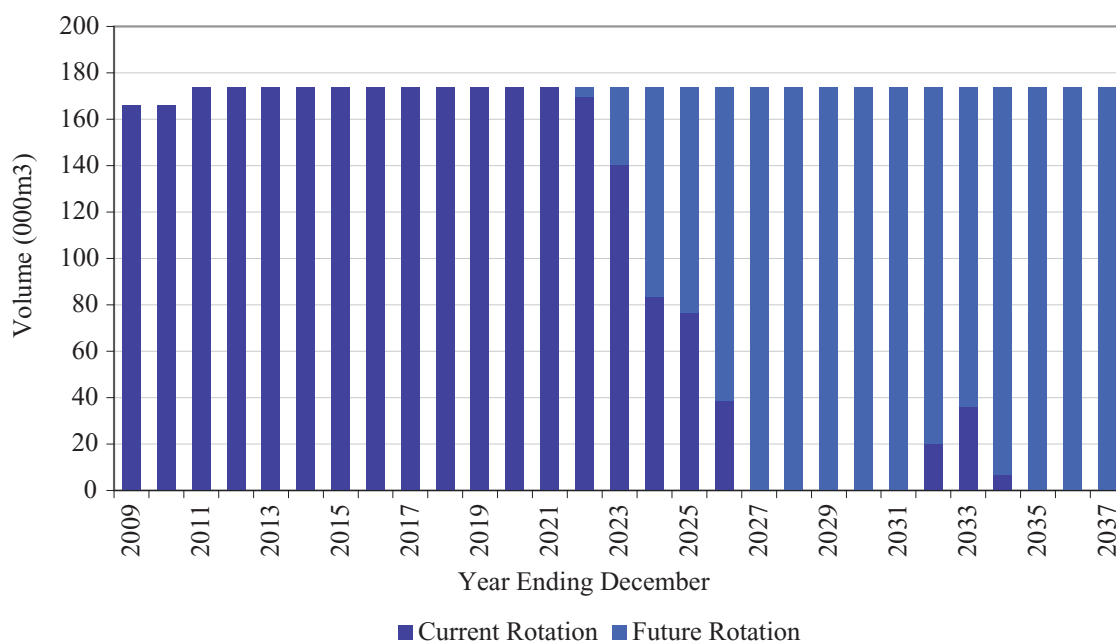
6.1.4 WOODFLOWS

The current crop is all over the age of 20 years and in The Group's view is able to be harvested. The Group harvests a maximum of 150 trees per hectare.

In so far as the second rotation is concerned The Group has not yet finalised its view of a suitable rotation age, but is of the view that trees can be harvested at an age below 20 years. After discussion with CFK it was decided that the wood flows would be prepared on the basis that the second rotation could be harvested at an age of 15 years. The Group is also strongly of the view that the harvest should be planned on the basis of ensuring a non-declining yield of timber for most of the land use term. (Obviously this constraint is difficult as the end of the land use term approaches).

The harvest volume for the year ended 31 December 2008 was 170,033 m³ and the planned volumes for 2009 and 2010 is 166,000 m³ per year. These figures have been incorporated into the wood flow projection shown in Figure 6.5.

Figure 6.5 SICHUAN WOODFLOW – NON DECLINING YIELD SCENARIO



The non-declining yield constraint is applied up until almost the end of the land use tenure for most of the forests (in 2036), from when it is impractical to apply.

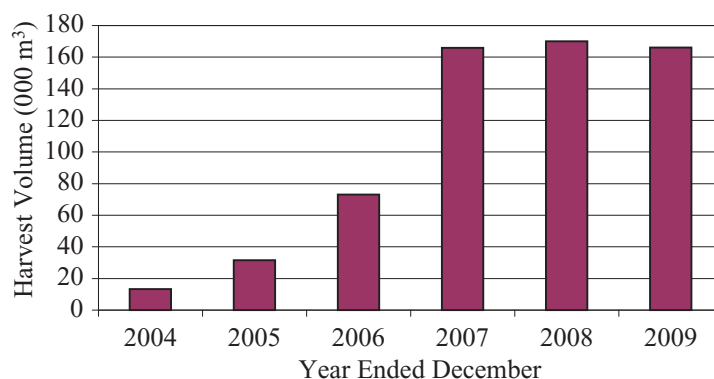
6.1.5 SALES VOLUMES

Sales volumes have reflected the acquisition pattern, increasing from 13,300 m³ in 2004 to 169,800 m³ in 2007 the harvest remained at a similar level to this in 2008 and there is a slight decrease is planned for 2009 (Figure 6.6).

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Figure 6.6 HISTORIC AND BUDGET HARVEST VOLUME



Prior to 2008 the focus was on developing a forest estate and a customer base upon which to grow sales volumes. During the field inspection CFK visited two of The Group's existing customers both of whom would like to purchase additional volume.

While not regarded as a major centre for wood processing Sichuan represents a sizeable market in its own right and The Group's ability to provide a consistent and reliable volume of wood should ensure it is well placed to meet the market demand.

6.1.6 SALES PRICES ACHIEVED

The Group sells logs to a number of customers. For major customers a base price and annual volume is agreed yearly, with delivered volumes and the actual price confirmed on a regular basis. Sales to smaller customers are made on a "spot basis" with volume and price agreed at the time a sale is negotiated. This is general practice in the region.

The Group provided CFK with log prices it received over the period it has been operating. Similar prices have been received for both Chinese Fir and Yunnan pine. The prices, Up until 2008 The Group's log prices increased steadily. In 2008 the Groups VAT status changed resulting in a drop in the VAT exclusive price. The drop between 2008 and YTD 209 is a result of the impact of the financial crisis on log prices (Table 6.3).

Table 6.3 THE GROUP LOG PRICES (excluding VAT)

	Price (excl VAT)	Annual Change%
2003	691	
2004	720	104%
2005	885	123%
2006	920	104%
2007	944	103%
2008	867	92%
2009 ⁽¹⁾	850	98%

(1) Year to date

Source: The Group records.

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6.1.7 OPERATING COSTS

Operating costs can be broken down into three main categories:

- Forest operational costs — includes costs involved in the establishment and maintenance of the forest and vary with the volume of work undertaken;
- Production costs — includes harvesting, transport and road construction costs; these vary with the volume and type of harvest; and
- Indirect Costs — costs associated with the general management, planning and supervision of forest operations, and harvest production and sales. It includes three categories of costs:
 - Annual forest based costs — costs associated with the operational control of forest operations excluding harvest and vary with the type and quantity of forest operations being undertaken;
 - Annual administration costs — head office costs, insurance, and land rentals, and do not vary with the amount of forest based operations that are undertaken; and
 - Harvesting indirect costs — those costs associated with the sale of logs, and supervision and planning of harvest operations.

Forest Costs

The Group uses local employees for any planting and tending operations that are carried out. Based on the financial information made available to CFK, and after discussion with The Group staff, The Group does not allocate the employees time to specific operations or functions and so CFK is not able to identify individual operation costs. CFK recommends that The Group begin to record work time by operation so that unit based operation costs can be obtained for comparison with other similar forest owners and to assist future planning and regime evaluation.

Production Costs

Logs are sold "delivered to the roadside". The customer is responsible for loading the truck and transporting the logs to the mill. From The Group's perspective, logging covers felling the tree, processing into log lengths, primarily 2 and 4 metre lengths, and delivery to roadside.

The trees are logged by the local villagers in the traditional manner. Trees are cut into 2m and 4m log lengths in the forest and transported by hand (or rolling them down the hill) to the roadside. The productivity and hence cost of logging in such a manner is dependent upon the topography, the distance from the road and the size of the trees. The logging rates are set with the local villagers. However, The Group pays a fixed rate regardless of the impact of differing productivity factors. It may be only a matter of time before The Group will have to change its means of setting rates for cutting and delivery of logs to the roadside to reflect the differing conditions.

The harvesting rates achieved by The Group are set out in Table 6.4. For the 2007 year the rate is RMB 190 /m³. This cost appears to be higher than the costs for logging using local

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villagers in other provinces but is lower than the cost of using full time professional harvesting firms.

Table 6.4 HISTORIC HARVESTING COSTS

<u>Year</u>	<u>Harvesting Cost (RMB/m³)</u>
2003	100
2004	105
2005	120
2006	170
2007	190
2008	200
2009	215

6.1.8 ENVIRONMENTAL ISSUES

The Group does not have a formal environmental audit process. CFK prepared a short formal series of questions to the management to identify if they were aware of any:

- Chemical waste dumps in the forest;
- Significant storm damage (affecting greater than 50-100 Mu) over the past five years;
- Significant forest health issues in the last five years that have resulted in widespread mortality (affecting an area greater than 50-100 Mu);
- Significant erosion (affecting an area greater than 50-100 Mu); or
- Area of the forests situated in water catchments for large cities.

After consulting with local forest based staff The Group was able to state that there were no chemical dumps in the forest and that there have been no significant forest health or incidences of storm damage in the last five years. Some of the forests are in water supply catchments for large cities, but as The Group is using a selective harvest regime this should no present any significant impediments to harvesting or other forest management activities.

Based upon its brief overview of the forests, CFK is of the view that given the location and terrain the likelihood of any chemical waste dumps in the forest is low. Like all forests they remain susceptible to biological damage. With sound monitoring systems in place (The Group has the basis for this with their forest based employees) then early detection of any problems can usually result in the timber being recovered and sold in the market place in the case of storm damage, or insect and fungal attacks controlled.

6.2 YUNNAN PROVINCE LUXI

6.2.1 EXISTING FOREST ASSETS

The estate consists of a number of forest blocks broadly situated around Luxi City in Yunnan province. They are located in Dehong and Shaungjiang Counties.

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The forests have been planted in a number of species — Birch (*Betula alanaoides*), Beech (*Fagus spp.*), Chinese Fir (*Cunninghamia lanceolata*), and Yunnan Pine (*Pinus yunnanensis*). The area by region, species and age class is shown in Table 6.5.

Table 6.5 NET PRODUCTIVE AREA (hectares) AS AT 30 JUNE 2009

<u>Forest Number</u>	<u>Forest Type</u>	<u>Species</u>	<u>Age</u>	<u>Area (ha)</u>
Y8	Plantation	Fir	26	588
Y8	Plantation	Fir	19	252
Y8	Natural	Beech	26	947
Y8	Natural	Beech	20	405
Y8	Natural	Birch	26	2,667
Y8	Natural	Birch	19	1,141
Y1	Plantation	Fir	26	1,287
Y1	Plantation	Fir	18	553
Y12	Plantation	Fir	26	703
Y12	Plantation	Fir	19	301
Y12	Natural	Beech	26	1,423
Y12	Natural	Beech	19	610
Y12	Natural	Birch	26	4,527
Y12	Natural	Birch	18	1,940
Y7	Plantation	Fir	26	873
Y7	Plantation	Fir	20	374
Y10	Plantation	Fir	26	588
Y10	Natural	Beech	26	1,000
Y10	Plantation	Fir	20	252
Y10	Natural	Beech	20	432
Y10	Natural	Birch	26	2,610
Y10	Natural	Birch	19	1,118
Y4	Plantation	Fir	26	1,353
Y4	Plantation	Fir	10	580
Y4	Natural	Beech	26	1,904
Y4	Natural	Birch	26	6,076
Y4	Natural	Beech	19	816
Y4	Natural	Birch	19	2,604
Y9	Plantation	Fir	26	607
Y9	Plantation	Fir	19	260
Y9	Natural	Beech	26	905
Y9	Natural	Beech	20	388
Y9	Natural	Birch	26	2,688
Y9	Natural	Birch	19	1,152
Y2	Plantation	Fir	26	40
Y2	Plantation	Fir	20	17
Y3	Plantation	Fir	26	409
Y3	Plantation	Fir	19	175
Y6	Plantation	Fir	26	71

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<u>Forest Number</u>	<u>Forest Type</u>	<u>Species</u>	<u>Age</u>	<u>Area (ha)</u>
Y6	Plantation	Fir	17	30
Y11	Plantation	Fir	19	247
Y11	Natural	Birch	26	2,713
Y11	Natural	Birch	20	1,164
Y11	Plantation	Fir	26	573
Y11	Natural	Beech	26	916
Y11	Natural	Beech	19	387
Y5	Natural	Pine	12	286
Y5	Natural	Pine	27	1,014
Y5	Natural	Pine	37	1,586
Y5	Natural	Pine	52	5,781
Total				<u>59,333</u>

Source: The Group's records

The productive area at 31 December 2008 is 59,333 hectares. The forest consists of the following species in the forest are Birch (51%) Beech (17%), Chinese Fir (17% and Yunnan Pine (15%).

The forest area was determined by the Forestry Bureau. From the discussion that CFK held with Forestry Bureau staff, CFK was able to determine that maps were prepared using the following conventions and methodology:

- 1) the base maps used for all forestry mapping work are those provided by the Chinese military;
- 2) the Forestry Bureau used SPOT5 satellite imagery to define the forest area;
- 3) Forestry Bureaus staff went into the field to physically verify that the forest area was correct as to species and tree cover;
- 4) the forest area excluded farmland and villages;
- 5) any area without any tree cover greater than 0.14 hectares were excluded from the forest area;
- 6) each species was identified and if occupied an area greater than 0.1 hectare, was mapped separately to the surrounding forest;
- 7) excluded major rivers and roads; and
- 8) included minor streams, roads and tracks less than 0.14 hectares;
- 9) the boundaries of the Group's forests were either farmland, roads, rivers, or main ridges and spurs where the area adjoined adjacent forest; and
- 10) for the Group's forests, the forest boundary was verified in the field using GPS, the variation had to be less than 5% for the boundary to be accepted by the Group.

Government regulations meant that CFK was allowed to view only a sample of the maps.

If the process of mapping the forest as described to CFK was followed, then CFK believes that the areas used as a base for the summary information that was made available

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to CFK is sufficiently accurate for use in the valuation. The sample of maps CFK did view indicates that the species and areas are likely to be mapped correctly.

SITE VISITS AND INFORMATION

CFK visited the area in January and July 2008 and again in March 2009 and in August 2009. During the visit CFK viewed a range of different sites designed to provide an overview of the resource. CFK also met with the Luxi Forestry Bureau and discussed the basis on which the area and volume assessments were made.

The Group provided CFK with a high level summary of the species, by time of planting and average yield. CFK believes that The Group needs to obtain the detailed planting records and inventory assessment of the resource if it is to manage the estate effectively. During the visits in March and August 2009 CFK visited some areas that had been harvested and also took some high level measurements of the forest resource.

FOREST VOLUMES

[The naturally regenerated Birch, Beech and Chinese Fir plantations were originally established by villagers on land that was not suitable for agriculture. As such there are no detailed planting records apart from knowledge of when the trees were planted.

The Yunnan Pine plantations were established by a number of aerial seedings undertaken over a number of years. In CFK's experience aerial seeding does not usually result in a uniform stocking rate. The outcome of this establishment process is a variety of age classes as well as stocking rates.

Following the purchase of the forests by The Group, the results of the Government survey for the forests was available for the Birch, Beech, and Chinese Fir areas, no additional information was available for Yunnan Pine. This information supported the high level information provided earlier.

The Group was unable to obtain any additional growth and yield information on the forests so this remains a source of uncertainty.

Table 6.6 presents the recoverable volume (the volume of wood extracted and sold during harvesting) estimates CFK has constructed from the high level estate summary information made available.

Table 6.6 TOTAL RECOVERABLE VOLUME

<u>Species</u>	<u>Age (yrs)</u>	<u>Volume (m3/ha)</u>
<i>Birch</i>	25	210
<i>Beech</i>	25	177
<i>Yunnan Pine</i>	25	179
<i>Chinese Fir</i>	25	240

CFK recommends that as soon as is practical, the Group maps the forest estate, and implements a geographical information system. The Group should also develop and implement a methodology to assess volume growth and yield.

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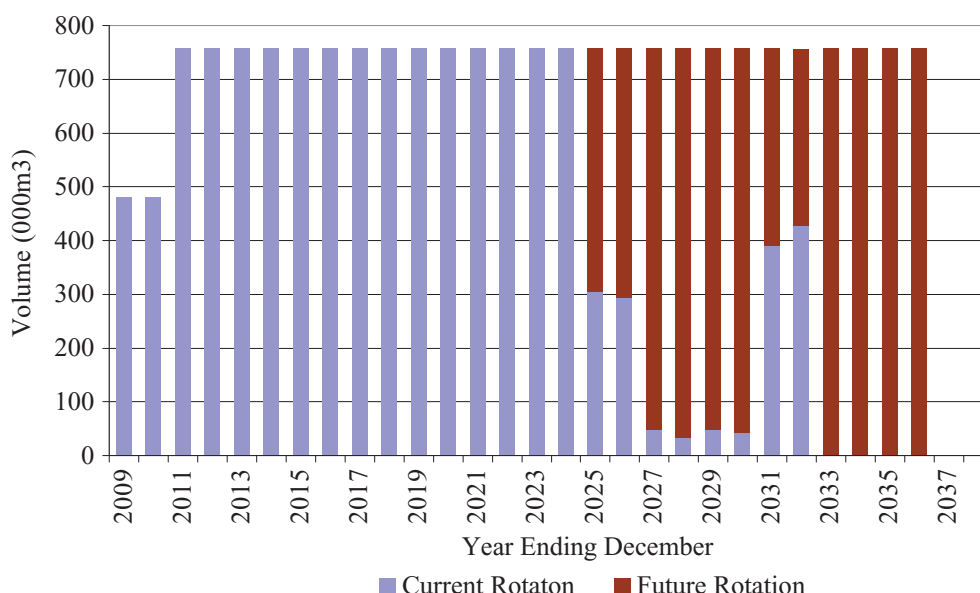
Without access to the forest records, inventory information and forest areas, CFK is not able to provide a comprehensive review of the forest description and forest yield. However, CFK believes that the forest yield projections are on the upper levels of what would be expected in the region.]

6.2.2 WOOD FLOWS

The wood flow from the forests has been projected based upon the summarised information on the current yield status made available to CFK by The Group. The Group did not have any information that may be used to project future volume growth. As a result CFK generated some high level yield projections that are used to prepare the wood flow projection.

The projection (Figure 6.7) is based upon The Group's current management intention which is to harvest the second rotation stands at age 15 years and to manage the forest on a non- declining yield basis.

Figure 6.7 WOOD FLOW PROJECTION — NON DECLINING YIELD



6.2.3 SALES PRICES ACHIEVED

The Group sells logs to a number of customers. For major customers a base price and annual volume is agreed yearly, with delivered volumes and the actual price confirmed on a regular basis. Sales to smaller customers are made on a "spot basis" with volume and price agreed at the time a sale is negotiated. This is general practice in the region. The Group commenced logs sales from the forests shortly after the purchase was finalised in the first quarter of 2008. This does provide a strong trading history but provides evidence of the sales prices that The Group is able to achieve (Figure 6.7).

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Table 6.7 THE GROUP LOG PRICES (excluding VAT)

	2008 Price (excl VAT)	2009 Price (excl VAT)
Birch	1239	1173
Beech	1150	1106
Chinese Fir	867	850
Yunnan Pine	867	850

(1) Year to date

Source: The Group records.

6.2.4 OPERATING COSTS

Operating costs can be broken down into three main categories:

- Forest operational costs — includes costs involved in the establishment and maintenance of the forest and vary with the volume of work undertaken;
- Production costs — includes harvesting, transport and road construction costs; these vary with the volume and type of harvest; and
- Indirect Costs — costs associated with the general management, planning and supervision of forest operations, and harvest production and sales. It includes three categories of costs:
 - Annual forest based costs — costs associated with the operational control of forest operations excluding harvest and vary with the type and quantity of forest operations being undertaken;
 - Annual administration costs — head office costs, insurance, and land rentals, and do not vary with the amount of forest based operations that are undertaken; and
 - Harvesting indirect costs — those costs associated with the sale of logs, and supervision and planning of harvest operations.

Forest Costs

Production Costs

Logs are sold "delivered to the roadside". The customer is responsible for loading the truck and transporting the logs to the mill. From The Group's perspective, logging covers felling the tree, processing into log lengths, primarily 2 and 4 metre lengths, and delivery to roadside. The trees are logged by a local contractor using a combination of traditional methods and cable extraction. Under the traditional method trees are cut into 2m and 4m log lengths in the forest and transported by hand (or rolling them down the hill) to the roadside. The productivity and hence cost of logging in such a manner is dependent upon the topography, the distance from the road and the size of the trees. When cable extraction is used the logs instead of being extracted by hand are pulled to the roadside using a wire cable and winch system.

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The Groups harvesting rate in 2008 was RMB 240/m³. The cost in the year (2009) to date have increased by about 8% and are currently RMB 260/m³.

6.2.5 PROJECTED SALES VOLUMES

The Group is planning to harvest the following volumes in 2009 and 2010 (Table 6.8)

Table 6.8 EXPECTED HARVEST VOLUMES

<u>Species</u>	<u>2009 Volume (m³)</u>	<u>2010 Volume (m³)</u>
Birch	228,000	228,000
Beech		174,000
Fir	36,000	
Pine	42,000	

6.2.6 ENVIRONMENTAL ISSUES

There are normally two sources of environmental issues with forests — one the impact of forest operations on the environment, and the second the impact of natural events on the forests themselves. The Group does not undertake (nor is it required to) routine formal environmental impact assessments of its operations. However, staff are well aware of the potential impact on the environment from their operations, especially that of harvesting operations. This is one of the principal reasons behind their desire to practice selective harvesting and develop a multi-aged stand, avoiding the need for clear cutting.

The Group's practice of low impact selective logging reduces the erosion risk associated with clear cut harvesting and by only removing 10% of the trees the potential for wind damage post harvesting is minimised.

The main natural environmental risks to the resource come from storms, excessive wind, rain or snow, and insect attack of fungal disease.

The main identified environmental threats come from a pine shoot beetle *Tomicus piniperda* which is present throughout Eurasia. While normally considered a secondary pest in Yunnan it is recorded as causing damage and even death of otherwise healthy *Pinus yunnanensis* trees. It is thought to have killed almost 200,000 hectares of Yunnan Pine in the region since it was first observed in 1980. There are no reports of *T piniperda* having the same impact on other Pine species or Yunnan Pine in other parts of China.

CFK was informed that during their due diligence in late 2007 and early 2008 CFK has not seen any forest health issues in the three visits it has made to the site. The Group had not identified any significant forest health concerns including *T piniperda*. They could also find no significant evidence of storm damage in the estate.

The location and nature of the forests indicate that it is highly unlikely (but cannot be completely ruled out) that the forests contain dumps of unused chemicals and other waste products.

Following the storms during the 2008 Chinese New Year in the southern parts of China, CFK asked The Group to verify what damage had occurred. These forests were in part of

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Yunnan province that was not badly affected by the storms and no significant damage was reported.

YUNNAN PROVINCE WENSHAN

In July 2008 the Group purchased a Plantation forest of approximately 100,000 hectares in Yunnan.

6.3.1 EXISTING FOREST ASSETS

The estate is made up of forests located in five counties—Ma Guan, Ma Li Po, Xi Chou, Fu Neng and Yan Shan. All are located in Yunnan province. The province generally has a well-developed roading infrastructure and all forests have access to district roads and expressways, sometimes via unsealed access ways capable of accommodating logging truck traffic. The Group provided CFK with a forest area description as at 31 December 2007. The forests have been planted in Chinese Fir (*Cunninghamia lanceolata*). This description predates the finalisation of the forest purchase. CFK has not been provided with the final areas and age classes, so the areas below are still subject to uncertainty as to species, age class and area. The area by region by age class is shown in Table 6.9.

Table 6.9 NET STOCKED AREA (hectares) AS AT 30 JUNE 2009

<u>Region</u>	<u>Age Class(Yrs)</u>	<u>Area (ha)</u>
Ma Guan	18	14,667
Ma Guan	19	20,000
Ma Li Po	17	23,333
Xi Chou	22	16,667
Fu Neng	23	14,667
Yan Shan	18	10,667
Total Area		100,000

Source: The Group's records

The stocked area at 31 December 2009 is 100,000 hectares.

The forest area was determined by The Group based upon information provided by the local Forestry Bureau.

WENSHAN SITE VISITS

CFK visited the area in February 2008 and again in March and August 2009. During the visit in February CFK viewed a range of different sites designed to provide an overview of the resource. CFK also met with the local Forestry Bureau and discussed the general layout of the forests, and the basis on which the area and volume assessments were made.

During the second visit in March 2009 more detailed inspections of two of the forest areas one in Ma Guan the other in Yan Shan county. These inspection included reviewing the yields including taking some benchmarking measurements of the yields in these locations

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FOREST VOLUMES

The Group provided CFK with some average recoverable volumes by county. This information was based on more detailed information which was derived during a 7 month study by National Forestry Administration technical staff. The Group is attempting to obtain this information for CFK. During the inspection in March 2009 CFK benchmarked the survey figures with its own measurements. The result indicated that the government survey figure provided an optimistic assessment of the recoverable volumes. The resulting recoverable volume figures are presented in Table 6.10.

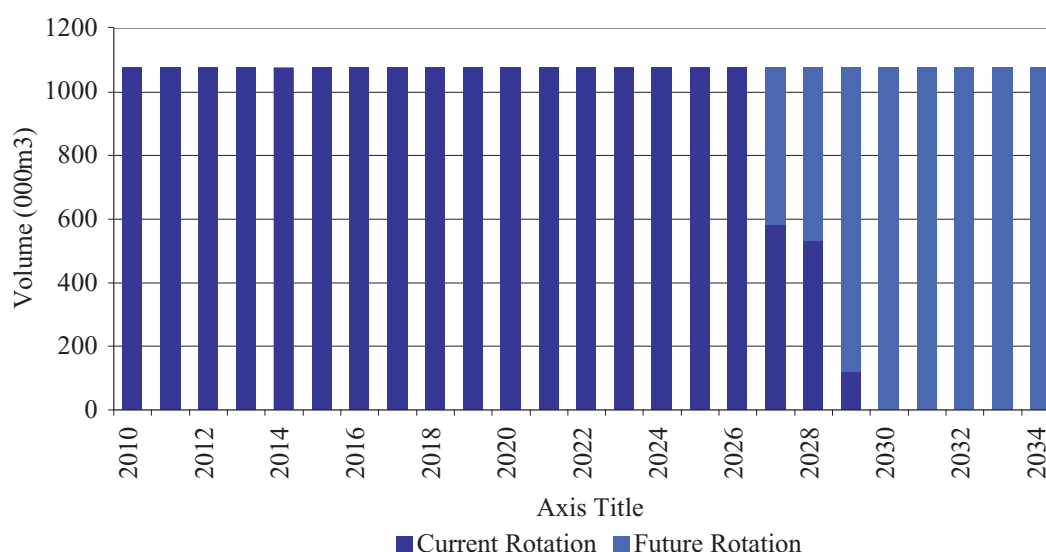
Table 6.10 TOTAL RECOVERABLE VOLUME (m³/HA)

Forest Number	Location	Age	Recoverable Volume M ³ /ha)
Y14	Gesa village renhe town maguan	18	197
Y15	Wumu village dalishu town maguan	19	203
Y16	Xiangpingshan village lianghuatang town xichou	22	221
Y13	Yangpizhai village babu town malipo	17	168
Y17	Ohebaini village pingyuan town yanshan	18	158
Y18	Nalai village ayong town funeng	23	231
Total Wenshan			197

6.3.2 WOOD FLOWS

The wood flow production from the forests has been projected based upon the summarised information that was made available to CFK by The Group. The Group did not have any information that may be used to project future volume growth. As a result CFK has generated some high level yield projections that were used to prepare the projection. The projection was developed using The Group's current management intentions which is to harvest the second rotation stands at age 15 years and to manage the forest on a non-declining yield basis.

Figure 6.8 WOODFLOW PROJECTION- NON DECLINING YIELDS



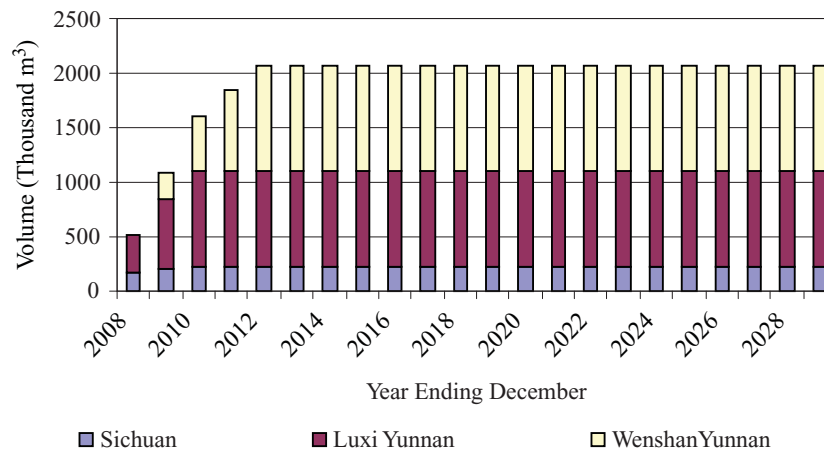
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6.4 FUTURE WOODFLOWS—ALL SOURCES

Figure 6.9 presents the future wood flows from Sichuan, Yunnan-Luxi and Yunnan-Wenshan.

Figure 6.9 COMBINED WOODFLOWS-NONDECLINING YIELD



7. FUTURE OPERATIONS

In this section confirmed investments refer to those projects that are currently being progressed and will go ahead. Planned investments are these investments that are at an advanced stage of planning and it is highly likely that they will go ahead.

The Group is also looking at the opportunity for purchasing forests in other provinces but these opportunities are not very far advanced and do not qualify for discussion as a confirmed or planned investment.

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7.1 PLANNED FOREST INVESTMENTS

The Group is considering further forest acquisitions in Yunnan. The acquisition is in Ninglang county and the forest area is shown in Table 7.1.

Table 7.1 NET STOCKED AREA (hectares) AS AT 30 JUNE 2009

Species/Forest	Cuiyu	Hongqi	Hongqiao	Jinnmian	Labo	Lannijing	Ningli	Xibuhe	Xichuan	Xinyingpan	Yongning	Yongningping	Zhanhe	Grand Total
Alder	0	0	0	0	0	0	0	0	7	0	0	0	0	7
Beech	0	113	0	0	0	0	111	0	0	0	0	187	0	411
Birch	100	0	21	3	113	0	0	0	0	0	139	0	0	377
Borad Leved (Soft)	0	0	88	0	0	0	0	0	0	0	0	0	0	88
Cold Spruce	1,938	543	2,092	490	1,013	0	412	0	40	292	3,066	312	0	10,197
Durable Broad-leaved Forest	0	0	0	0	0	0	0	0	0	0	20	0	0	20
Larch	496	0	1,023	8	0	0	450	0	0	0	1,060	314	0	3,350
Mixed Broad Leaved	0	0	0	0	41	0	0	0	0	0	0	0	0	41
Oak	778	4	185	0	64	33	17	332	40	71	61	289	52	1,926
<i>Pinus densata</i>	2,990	1,402	0	461	875	0	412	0	0	1,127	884	87	0	8,236
<i>Pinus montana</i>	0	0	793	0	0	287	0	0	0	0	0	0	0	1,080
<i>Populus davidiana</i>	14	0	39	0	0	0	0	0	26	0	0	0	0	79
Spruce	853	0	8	0	0	0	143	0	0	133	564	0	0	1,702
<i>Pinus yunnanensis</i>	2,880	3,311	717	1,840	370	525	2,407	4,542	2,916	2,046	884	1,505	1,876	25,820
Total	10,050	5,373	4,967	2,800	2,476	845	3,949	4,874	3,028	3,670	6,678	2,694	1,928	53,333

Note: Figures may not add to totals due to rounding.

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APPENDIX 1 TREE SPECIES

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Chinese Fir (*Cunninghamia lanceolata*)

Range

China, Vietnam, Laos, perhaps Cambodia; widely introduced in Japan, and widely planted throughout China, so that its original native distribution is not known.

Found from sea level to 2000 metres in most temperate areas of China but avoiding areas where the winters are very cold. It is most often found on red sandstone where it forms pure stands.

Growth and Form

Young trees can make quite rapid growth in height, up to 60cm a year once they have attained more than 1 metre in height. Before reaching the height of 1 metre, however, they are liable to be killed by frost. Grown in full sunlight or partial shade (will grow in shade but with poor, open form) on moist, well-drained, acid soil. Leaves may be damaged by frosts, but are quickly replaced in spring. Is extremely drought tolerant and grows well in poor, compacted clay soil.

The general shape of the tree is conical with tiered, horizontal branches that are often somewhat pendulous toward the tips. In vernacular use, it is most often known as *Cunninghamia*, but is also sometimes called "China-fir" (though it is not a fir).

As the tree grows its trunk tends to sucker around the base, particularly following damage to the stem or roots, and it then may grow in a multi-trunked form. Brown bark of mature trees peels off in strips to reveal reddish-brown inner bark. Older specimens often look ragged, as the old needles may cling to stems for up to 5 years.

It is suitable for reforestation and planting along the roads of mountainous provinces, in subtropical evergreen, coniferous and mixed broad-leaved forests (FIPI 1996). It is the most important fast-growing timber tree of the warm regions south of the Chang Jiang valley; it is propagated by seed, cuttings, or suckers. This is a prized timber tree in China, producing pale yellow to white, soft (density 0.4-0.5), highly durable, easily worked, resistant to insects and termites, scented (fragrant) wood similar to that of Coast Redwood and Sugi. It is used in constructing buildings, bridges, ships, and lamp posts, in furniture manufacture, and for wood fibre (Wu and Raven 1999); in floors, panels, packaging; and in particular for manufacture of coffins and in temple building where the scent is valued.

Yunnan Pine (*Pinus yunnanensis*)

It is a pioneer species following fire. It is found in Myanmar, Thailand, and Vietnam wherever there is shifting cultivation. In natural stands it is not high yielding, reaching heights of only 20-30 m and diameters to 50cm before giving way to seral hardwoods. It has excellent stem form, in contrast to *Pinus massoniana*, and has not suffered the dysgenic selection of the latter. Its good form gives it an advantage as a pole timber.

It prefers moister sites than the other species, but this characteristic is reportedly due to its intolerance of low atmospheric humidity rather than soil moisture. It is invariably planted on steep slopes, often very closely spaced on cultivated contour strips. Nowadays blanking is general. It is being used to replace failed *P.massoniana*.

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The timber has a specific gravity of 0.45, and is a useful general-purpose softwood used in the round for house construction.

Range

Guangxi, Guizhou, SW Sichuan, SE Xizang, and Yunnan. Mountains, river basins, dry and sunny slopes from 400-3100 m altitude.

Predominantly at 600-3000 m elevation on the high plateaus of Yunnan (Li 1997), but extending north into Sichuan, where it intergrades with *P. tabuliformis*, and south into northern Burma, where it intergrades with *P. kesiya*. In recent times it has extended its range as competing broadleaf forests are logged (Farjon 1984, Li 1997, Richardson and Rundel 1998).

Birch (*Betula alanooides*)

A hardy deciduous tree growing to 40m at a fast rate. It grows in a range of soils, and can grow in semi-shade (light woodland). It requires moist soil. Birch has a wide range and is found from the sub tropical zones in Yunnan through the higher altitudes found in Tibet and Nepal.

The wood is moderately hard, close grained, strong, and durable. It is suitable for sawing, peeling and for pulp and paper making. The sawn lumber veneer and plywood are used in furniture manufacture, and flooring as well as interior joinery.

Beech (*Fagus spp.*)

A hardy deciduous tree capable of relatively fast height growth. The genus is widespread with species found in Europe and North America. The Species endemic to China are unique in that they are found in the sub tropical regions rather than the temperate climates where

European and North American *Faguss spp* are found.

The wood is moderately hard and can be sawn and peeled. It is suitable for use in flooring and furniture applications.

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APPENDIX 2 LOG PRICE TABLES

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This price data relates to Figure 5.12 Chinese National Log Prices in Section 5 of the main body of this report.

Table App 2.1 RUSSIAN LARCH LOG PRICES 2000 Q1 to 2009 Q2

<u>Year Quarter</u>	<u>Larch RMB/m³</u>
2000:1	484
2000:2	472
2000:3	451
2000:4	478
2001:1	461
2001:2	462
2001:3	471
2001:4	525
2002:1	503
2002:2	534
2002:3	519
2002:4	520
2003:1	512
2003:2	517
2003:3	498
2003:4	522
2004:1	535
2004:2	606
2004:3	620
2004:4	594
2005:1	602
2005:2	610
2005:3	617
2005:4	625
2006:1	656
2006:2	680
2006:3	682
2006:4	717
2007:1	730
2007:2	768
2007:3	786
2007:4	825
2008:1	857
2008:2	884
2008:3	935
2008:4	937
2009:1	784
2009:2	763

Source: RISI

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This data relates to Figure 4.15 Russian Larch Log Prices 2000 Q1 -2009 Q2 in Section 4 of the main body of this report.

Table App 2.2 NEW ZEALAND LOG PRICES 2000 Q1 – 2009 Q2

<u>Year Qtr</u>	<u>Radiata Pine RMB/m³</u>
2000:1	545
2000:2	572
2000:3	589
2000:4	556
2001:1	533
2001:2	543
2001:3	514
2001:4	502
2002:1	501
2002:2	522
2002:3	516
2002:4	490
2003:1	514
2003:2	537
2003:3	561
2003:4	602
2004:1	718
2004:2	841
2004:3	759
2004:4	747
2005:1	750
2005:2	754
2005:3	757
2005:4	760
2006:1	790
2006:2	791
2006:3	844
2006:4	889
2007:1	926
2007:2	968
2007:3	900
2007:4	869
2008:1	880
2008:2	860
2008:3	890
2008:4	890
2009:1	594
2009:2	582

Source: RISI

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This data relates to Figure 4.19 New Zealand Log Prices 2000 Q1 - 2009 Q2 in Section 4 of the main body of this report.

Table App 2.3 TROPICAL HARDWOOD LOG PRICES

<u>Year</u>	<u>Malaysia</u>	<u>PNG</u>	<u>Gabon</u>	<u>Eq. Guinea</u>
1996	1142	1323	1766	1720
1997	1166	1265	1745	1754
1998	924	991	1556	1460
1999	1035	1155	1696	1568
2000	1018	1115	1626	1447
2001	837	908	1537	1397
2002	949	905	1408	1366
2003	1119	932	1814	1549
2004	1270	1068	2172	1812
2005	1186	1209	2338	1936
2006	1261	1301	2395	1924
2007	1424	1348	2613	2034
2008	208	193	388	300
2009 YTD	183	143	308	245

Source: RISI, CFK analysis

The data in Table App 2.4 relates to Figure 5.17 Tropical Hardwood Log Prices in Section 5 of the main body of this report.

Table App 2.4 TEMPERATE LOG PRICES

<u>Year</u>	<u>Russia</u>	<u>Germany</u>	<u>United States</u>
1995	857	5018	1850
1996	923	4742	1498
1997	1109	2393	2050
1998	1064	3081	1950
1999	945	4110	1854
2000	1026	3188	3591
2001	1067	2366	2567
2002	915	1486	3765
2003	886	1448	4476
2004	962	1453	4622
2005	978	1446	4819
2006	908	1327	4921
2007	853	1308	4681
2008	168	224	592
2009 YTD	168	185	628

Source: RISI, CFK analysis

The data in Table App 2.5 related to Figure 5.18 Temperate Hardwood Log Prices in Section 5 of the main body of this report.

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APPENDIX 3 PRODUCTION AND ANNUAL COSTS

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Table App 3.1 presents CFK's estimates of production and annual costs.

The following cost breakdown is based upon the direct and indirect production costs the Group is incurring in Sichuan and Yunnan-Luxi at the beginning of 2009. The Yunnan-Wenshan costs are the current estimate of the likely production cost once harvesting commences. The annual costs are based upon analysis of The Group's administration costs for the year ended December 2008. The 2008 indirect costs are significantly lower than the RMB1,000/hectare derived from the 2007 financial information. This represents the economies of scale obtained from the forest acquisitive during 2008.

Table App 3.1 WEIGHTED AVERAGE LOGGING COSTS (RMB/M³) AND ANNUAL COSTS

	Area (hectares)	Production Costs RMB/m ³	Indirect Production Costs	Forest Based Annual Costs (RMB/ hectare)
Sichuan	12,447	215	63	179
Yunnan -Luxi	59,333	260	53	179
Yunnan -Wenshan	100,000	260	53	179
Total	171,780	257	54	179

	Area (hectares)	Production Costs RMB/m ³	Forest Based Annual Costs RMB/ha	Annual Costs RMB/year
Sichuan	12,447	190	179	N/A
Yunnan -De Hong and Lin Cang	59,333	240	179	N/A
Yunnan -Wenshan	100,000	240	179	N/A
Estate Wide	171,780	236	179	748,000

Source: CFK and The Group

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APPENDIX 4 VALUATION METHODOLOGY

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VALUATION METHODOLOGY

CFK has used a discounted cash flow methodology, which is by far, in CFK's view, the most common approach to forest valuation. The valuation is to conform to the International Accounting Standard 41 ("IAS 41") *Agriculture*.

The standard defines fair value as "*the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction*" ("Fair Value"). The concept of Fair Value is the basic principle of the standard.

If an active market exists for a biological asset the quoted price in that market is the appropriate basis for determining Fair Value of that asset. IAS 41 defines an active market as where the following conditions exist:

- (a) *the items traded within the market are homogeneous;*
- (b) *willing buyers and sellers can normally be found at any time; and*
- (c) *prices are available to the public.*

In the situation where market-determined prices or values may not be available for a biological asset in its present condition, the standard (paragraph 20) provides for Fair Value to be determined as the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate in determining fair value. In applying this approach, IAS 41 requires exclusion of any cash flows for:

- financing;
- taxation; and
- re-establishing biological assets after harvest.

Entity valued

The standard recognises only the existing crop. That is, cash flows up to and including the harvest of the crop which exists as at the valuation date. Any liabilities or benefits — such as those arising from replanting obligations — beyond the harvest of the existing crop must be reported separately by the entity for inclusion in their accounts. The valuation period for each stand is therefore from the valuation date through to harvest age.

Present Location and Condition

IAS 41 requires assessment of Fair Value for the asset in its present location and condition, and specifically excludes increases in value from additional biological transformation and future activities. CFK adopted the following interpretation of '*additional biological transformation*' as '*biological enhancements that are unduly conjectural and have not yet been demonstrated as part of routine management*'. The International Accounting Standards Board Exposure Draft concurs with this approach and proposes to amend the perceived prohibition on recognition of 'additional biological transformation' when estimating Fair Value.

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Discount Rate

The standard is prescriptive in some aspects and less prescriptive in others. In particular, it does not provide guidance on how to select the appropriate discount rate (other than that it must be "*market-determined*"). It leaves it to the valuer to make its own decision in choosing and constructing this input. The discount rate chosen has a significant impact on value.

Log price

For CFK's valuation of the Group's Sichuan forests, the log price used by CFK are RMB869/m³, RMB912/m³ and RMB943/m³ for 2005, 2006 and 2007 respectively, which are consistent with the Group's historical log prices in Sichuan in 2005, 2006 and 2007 respectively.

In respect of CFK's valuation of the Group's Yunnan forests, at the time such valuation was prepared by CFK, the Group did not have a trading history in Yunnan but it had entered into a number of log contracts with a number of customers for 2008. The log price used by CFK in the valuation for the Group's Yunnan forests are RMB1,400/m³ for birch, RMB1,400/m³ for beech, RMB1,300/m³ for beech, RMB980/m³ for Yunnan pine, and RMB980/m³ for Chinese fir, which are consistent with the Group's log contracts.

DISCOUNT RATE

As mentioned above, IAS 41 does not prescribe the methodology to be used to derive a discount rate to be used in determining the Fair Value, apart from stating that it must be "*market-determined*". The discounted cash flow approach is used in the absence of an active market for forests.

Selection of the valuation discount rate is normally a two step process:

- Using a number of different methods by which the discount rate can be assessed; and
- Adjusting the derived discount rate for any specific non-quantifiable risks associated with the particular forest being valued.

While each method has its particular strengths and weaknesses, some of the more commonly used approaches used to derive the discount rate are set out as follows:

- Internal Rate of Return;
- Rates used in other valuations;
- Rates implied by transaction evidence; and
- Capital Asset Pricing Model (CAPM).

CFK derives the discount rate from analysis of market sales transactions, CAPM analysis and an assessment of the non quantifiable risk associated with the forest.

INTERNAL RATE OF RETURN

The Internal Rate of Return (IRR) is defined as the discount rate at which a project's discounted revenues equal the discounted costs. While a useful technique to compare the IRR

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of a number of different projects, it has a number of limitations as a valuation technique, as by definition, the net discounted revenues will be zero.

RATES USED IN OTHER VALUATIONS

The discount rates employed by other valuers can provide a useful cross reference on the range of appropriate discount rates. However, these rates would be useful only if all the assumptions surrounding the valuation are known and understood.

There are a number of publicly listed companies that own forests in the PRC. A summary of these rates are shown in Table 4.1.

Table 4.1 DISCOUNT RATES USED BY OTHER VALUERS FOR COMPANIES WITH FOREST INVESTMENT IN CHINA

<u>Company</u>	<u>Exchange on which shares are listed</u>	<u>Forest location</u>	<u>Valuation Type</u>	<u>Valuation Date</u>	<u>Currency</u>	<u>Discount Rate</u>
Oji Paper Co., Ltd (Note 1)	Tokyo and Osaka	Guangdong, Guangxi	Non IAS 41 compliant	Not applicable	Not applicable	Not applicable
Sino Forest Corporation ("Sino Forest") (Note 2)	Toronto	Fujian, Guangdong, Guangxi, Hunan, Jiangxi, Yunnan	DCF (Uncertain whether IAS 41 compliant)	31 December 2008	USD	11.5%
Cathay Forest Products Corp. (Note 3)	Toronto	Guizhou, Hunan, Jiangxi, Henan, Shandong, Jiangsu	DCF (Uncertain whether IAS 41 compliant)	31 December 2007	USD	10.0%
China Grand Forestry Resources Group Limited ("China Grand Forestry") (Note 4)	Hong Kong	Yunnan	IAS 41 DCF	30 April 2009	HKD	11.5%
China Timber Resources Group Limited (Note 5)	Hong Kong	Guangdong	IAS 41 standing value method	31 March 2009	HKD	Not applicable

Sources:

1. Website of Oji Paper Co., Ltd and Oji Paper Co., Ltd: Summary of consolidated Financial and Business results for the year ended 31 March 2008
2. Sino Forest 2008 Annual Report and Sino Forest Valuation as at 31 December 2007 prepared by Poyry for the existing crop only
3. Website of Cathay Forest Products Corp. and Cathay Forest Products Corp. Annual Report 2007
4. Circular of China Grand Forestry dated 24 July 2008 – Appendix IV
5. China Timber Resources Group Annual Report 2009

Since the valuations of Oji Paper Co., Ltd and China Timber Resources Group Limited are not based on discounted cash flow method, they are not able to provide any cross reference on the discount rate. Based upon the information available, CFK cannot say with certainty that the valuations for Sino Forest and Cathay Forest Products Corp are IAS 41 compliant. Their valuations are generally similar to valuations that would be produced under

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IAS 41, in that they have been developed using the discounted future cash flows. Accordingly, the aforesaid valuations are considered relevant, even though they may not necessarily be IAS 41 compliant. As such, the only three comparable valuations that are useful to provide a useful cross reference on the range of appropriate discount rates for discount cash flow model (regardless whether they are IAS 41 compliant or not) are those relating to Sino Forest, Cathay Forest and China Grand Forestry.

The most significant difference between an IAS-compliant valuation and an IAS-non-compliant valuation would be that, an IAS 41 valuation is concerned only with the existing crop and excludes the costs and returns from replanting following harvest. Where discount rates are being compared between valuations, it is essential to consider the methodology employed, not whether the valuation complies with the relevant accounting standards, which vary from country to country and do not prescribe a discount rate.

The rates used by other forest valuers for comparable companies range from 10% to 11.5%. It is noted that the discount rate of 11.5% has remained unchanged since 2005 despite a decrease in transactional evidence as discussed below. This implies an increasing risk for forests located in the PRC compared with the transactional evidence. However, in CFK's view this is unlikely to be the case into the future. A number of listed companies have owned forests in the PRC for a number of years and their forest area has increased year on year. In addition there is increased international interest in PRC forest investments this will increase the understanding and transparency of forest transactions over time. This increasing track record should result in a decrease in the risk profile relative to other countries instead of an increase as implied by the unchanged discount rate, during the period 2005-2008.

The longer that a forest owner owns the forest, the probability of gathering a higher level of knowledge of the forest estate would increase, in practical terms the projections of future markets costs, growth and yield of the forest will become more reliable. This increased reliability and understanding will serve to reduce the risk profile. Nevertheless, CFK has retained the same risk profile for the Group's Sichuan forest throughout the Track Record Period, as most of the forests in Sichuan were acquired by the Group during the second half of 2007. Although the Group has owned forests in Sichuan in 2005 and 2006 (and even in the first half of 2007), this would not enable the Group to gather substantial information on the Sichuan forest as a whole and may not substantially reduce the risk profile of the Group. Therefore, the effect of such ownership of forest in 2005, 2006 and the first half of 2007 on the discount rate (and hence the valuation) was immaterial. CFK has also maintained the same discount rates in valuing the Group's forests as at December 2008 as the Group has not commenced harvesting in Wenshan and has less than one years experience in harvesting the Luxi forest estate.

Transactional evidence

To establish a PRC based transactional evidence, it would require access to and participation in direct negotiation, understanding the relationships and local knowledge specific to each transaction and company — such sale process is often not transparent to third parties. Such transactional evidence would also factor in the relationship, bargaining power and local knowledge of the buyer which may be different from one buyer to another.

There have been some "open market sales" of forests within the PRC (which were sold through advertisement and therefore everyone had an equal opportunity to purchase them),

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but they have involved small areas of forest. They are not considered to be representative of the forests that the Group owns because they are much smaller than the Group's forests. Therefore, these sales can be considered to be in a different market than the market that would exist for the Group's forests should they come on the market.

CFK noticed that in November 2007, China Grand Forestry acquired forests in Yunnan with forest area of 47,467 hectares, of which the discount rate used in the valuation was 11.5%. This sale cannot be regarded as an open market sale, as it was conducted by direct negotiation and was not made through an open and competitive process. In the same way the recent transactions made by the Group cannot be considered as open market sales.

Saved for the above, most of the transactions to date have been through acquisition of smaller individual forest tracts by direct negotiation with local villagers or government agencies, and hence, there are no "open market" forest transactions in the PRC. These transactions are not conducted in a fair open market and are not regarded as open market transactions under the standard. Therefore, the use of the PRC transactional evidence is not representative in the selection of a discount rate, and there are significant barriers to entry for firms wishing to execute such transactions. Some examples of these barriers to entry are:

- Industry knowledge and expertise. Forests, as compared to other crops, have a long growth cycle. Understanding this cycle and the associated log markets and the existing forest ownership structure is the key to being able to identify forests that have hidden value;
- Connection with forestry administration bureaus. China's decentralised forest administration system increases the importance of connections within the various levels of forestry administration bureaus. Often these relationships can mean the difference between being able to purchase a forest or not; and
- Access to funding. Forestry is a relatively capital intensive business, requiring significant upfront expenditure with harvesting often to be taken place in several years in the future

Once this first phase of forest acquisition has been completed, the market is likely to become more mature and there will be secondary sales of large industrial scale forests. The absence of open market sales rules out the use of PRC based transactional evidence to select the discount rate.

In recent years, the most active markets for forest sales have been in the Northern Hemisphere and the Southern Hemisphere. These sales can be considered to be open market sales, in that they are generally advertised and have a number of competing buyers and while they cannot be directly translated, they do provide a guide to expected returns and in particular and change in the expected return over time.

The transactional evidence from both the Northern Hemisphere and Southern Hemisphere transactions is not used directly to determine the discount rate. It is important to note that a number of investment organisations are involved in both the Northern Hemisphere and Southern Hemisphere markets. In this way, both markets could be regarded as a surrogate for a global market. Between the Northern Hemisphere and Southern Hemisphere

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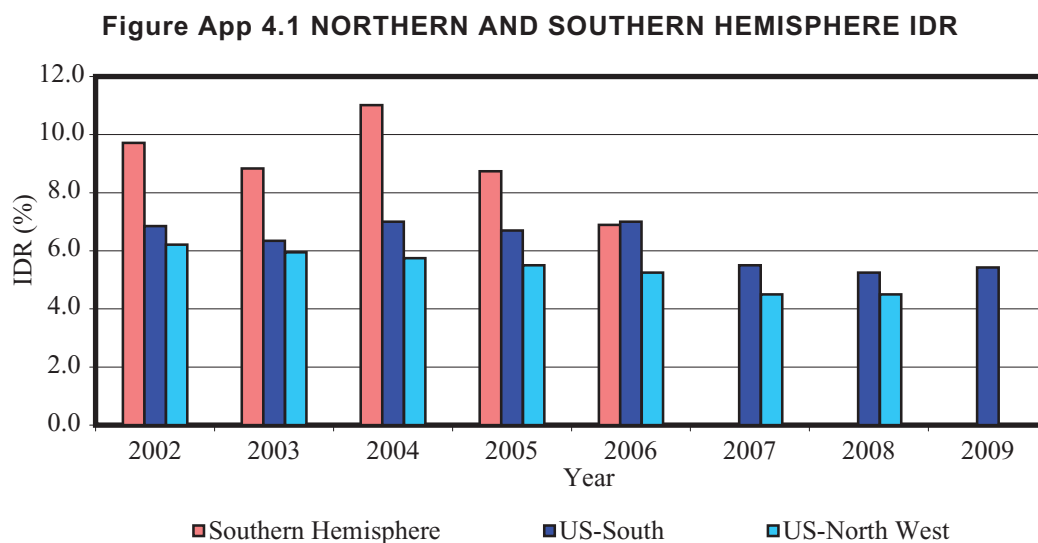
transactions, there are a multitude of differing regulations and country risk. The key point from the transactional analysis is that discount rate in both markets behaves in a similar manner.

There are a number of differences between the Southern Hemisphere transactions and Northern Hemisphere ones. The followings are the major factors that could contribute to the differences:

- Different number of transactions: Southern Hemisphere had 16 sales between 2002 and 2007. The Northern Hemisphere database includes over 200 transactions conducted between 2002 to 2007.
- A large number of the Northern Hemisphere transactions represented one vendor (namely, International Paper).
- Currency Risk: CFK's analysis has shown that if the analysis is undertaken in USD instead of the home country currency, their discount rates are at the similar levels as those of the Northern Hemisphere transactions.

CFK considers that most of the differences appears to be in currency risk. Besides these major factors, there are other factors which also contribute the differences between the implied discount rates ("IDRs") derived from the Southern Hemisphere and Northern Hemisphere transactions.

Figure App 4.1 below shows the comparison of IDR of Southern and Northern Hemisphere transactions.



Notes:

1. CFK-NZD refers to Southern Hemisphere transactions dominated in home currencies.
2. CFK-USD refers to Southern Hemisphere transactions translated to US dollar.
3. S&S and M&A refer to Northern Hemisphere transactions (dominated in US dollar) valued by two forestry valuers.

Southern Hemisphere Sales

Since 1990, CFK has analysed all southern hemisphere plantation forest sales for which analytical data are available to CFK. The sale details and the derived implied discount rates

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are maintained in a database. The IDR is the discount rate at which the net present value of the projected net cash flow equates to the transaction price. They are based on real and pre-tax cash flows.

The database contains 50 separate sales covering both state and private forests ranging in size from 48 ha to 186,000 ha. The total area of forest involved is 1,584,000 ha with an historic transaction value of NZD8.6 billion (value of the tree crop excluding freehold land).

In recent years, CFK has used the IDRs for sales since 1997 as a guide for establishing forest valuation discount rates. The Asian down-turn in that year saw a significant upwards shift in investor earnings expectations, as evidenced by the implied discount rates. Since that time there have been 31 sales.

Southern Hemisphere Implied discount rates during the 1989 to 2007 period range from 5.3% to 13.5% with a median of 10.0%.

The most recent (six) sales of large estates — occurring in 2005 and 2006 — are at or towards the lower end of the IDR range. They have the following features:

- areas ranging from 18,000 ha to 184,000 ha;
- range of IDRs 5.3% to 8.4%;
- median IDR 7.1%; and
- mean IDR 7.3%.

CFK has observed a number of consecutive sales with uniformly low IDRs in comparison with all other sales.

Northern Hemisphere Sales

From 2006 to 2009, the Northern Hemisphere sales generally have

- a lower return than the Southern Hemisphere sales.
- show a decline in IDR from early 2006
- show that sales in late 2007 early 2008 are consistent with the lower discount rates observed in 2006 and early 2007
- show that sales in the first quarter of 2009 are consistent with sales in late 2007 and 2008, indicating that the global financial crisis does not appear to have increased the IDR

Northern Hemisphere period implied discount rates during the 2006 to 2008 range from 5.3% to 6.3% with a median of 6.0%.

The more recent Southern Hemisphere transactions show a wider range than those observed in the Northern Hemisphere. There is also a small difference in the median IDR between the two data sets.

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During the last three years there has been increased demand for good quality timberland in both Northern Hemisphere and for Southern Hemisphere plantations. Buyer interest has been from private pension funds, state pension funds, private equity, and forest-owning corporates. These groups are all beginning to look at forest investments outside the traditional regions. CFK is aware of forest sales in Africa to institutional buyers and at least one investment fund is actively pursuing forest acquisitions in the PRC. However, CFK does not rely on the post-1997 sales as a basis for setting the discount rate. In fact, it relies on the post-2005 sales, and the sales from 1997 to the present date are included for information and to illustrate that there has recently been a downward shift in discount rate.

CFK is aware of anecdotal evidence from some existing timberland investors in the United States that their expectation of return has increased as a result of the financial situation, and there are two reasons for this: they see a number of alternative investment opportunities with the right down in various other asset classes; and future purchases will not carry any debt or lower levels of debt than previously. On the other hand some sellers of forests appear to have the contrary view. In other situations (although the current situation is unparallel in its depth and scale) where stock market values have declined, forests have been seen as a relatively safe haven, due to relatively stable forest values. The fact is that forests have provided an inflation hedge in the past, and there is an option value in that the trees will keep growing if harvest is delayed due to the short-term falls in market demand. Conversely harvest can be increased in times where demand increases. It is this option value that differentiates forests from other investments. There is no transactional evidence to indicate that a change in discount rate is warranted.

Capital Asset Pricing Model

The CAPM is a tool commonly used by financial analysts and valuers to estimate the cost of equity capital. The discount rate is based on observed market parameters, and applied to an individual firm. The CAPM approach requires assessment of the risk-free rate, capital structure, equity beta, and risk premium for equity. For an IAS 41 compliant valuation, financing charges are excluded when preparing the asset valuation. As a result, the CAPM analysis is appropriate for an equity only valuation.

When calculating the cost of capital, (i) the currency of the cash flows and the currency of the discount rate should be the same; and (ii) the market risk premium and beta be estimated against a global market portfolio and not a local one. Given that the Group's forests are valued in RMB, a RMB based risk free rate and inflation rate should be used.

For the estimation of the equity Beta, its derivation is based on measuring the movement of listed stock prices. However, the observed Betas tend to be highly variable, even within a single industry, and therefore offer little assistance particularly where there are few listed stocks, as is the case with forestry where most of the listed stocks are either companies involved solely with manufacturing forest products or are vertically integrated forest products companies owning forests and manufacturing facilities. There are very few listed, pure forest owning companies on which to derive an accurate estimate of the sector's Beta.

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CFK has utilised the standard version of the CAPM model adjusted for inflation. The CAPM model is:

$$Re = \{ [1 + (Rf + e * Mrp)] / [1 + Ix] \} - 1$$

Where:

Re = cost of equity capital
Rf = risk free interest rate
Mrp = market risk premium
e = the equity Beta
Ix = inflation

CFK has used the following inputs into the CAPM model:

Equity Beta (β_e):

There are very few pure play publicly listed forest owning companies. Most valuers then look at the performance of the vertically integrated forest owning companies and their nominal pre-tax equity Beta lies between 0.6 and 1.1. The betas were obtained from information obtained from Bloomberg and Price Waterhouse Coopers, and interpreted and analysed by CFK.

CFK obtains summarised data and does not have access to the individual companies. It is a significant weakness in the CAPM analysis for forest owning companies. The fact is that there are very few pure forest owning companies worldwide, and nearly all have some involvement in downstream processing or other activities such as trading or alternative structures such as Real Estate Investment Trusts (REIT) in the U.S.. This situation has been exacerbated by the increasing trend to private ownership of forests dominated by the U.S. pension and endowment funds. This has reduced the number of integrated forest company worldwide. The only rationale for including those companies is that, ultimately the fortunes of the forest are linked to the fortunes of the downstream companies in the medium to long term. For this reason, CFK prefers to look at a range of asset betas rather than adopt a single beta. The calculation of the equity beta from integrated forest products companies, and in some cases, pulp and paper or other related building products companies, is normal practice amongst forest valuers who undertake CAPM analysis.

Market Risk Premium (Mrp):

Market risk premium corresponds to the premium of realised total equity returns over the long term, total risk free bond returns estimated over a long period. CFK uses an estimate of the market risk premium based on the international arithmetic average international equity risk premium of 5% contained in ABN Amro's 2006 Global Investment Yearbook. This estimate is based largely on time series from European and U.S. stock markets. Accordingly it should be adjusted to reflect the sovereign and market risk of the project. CFK has adopted the same approach as others and ranked countries according to their sovereign risk ratings and applied a multiplier based on that ranking. Timber in the Chinese forest will be sold almost entirely into the domestic market and with prices set domestically. Therefore, the revenue from sales of timber as well as costs to harvest and produce the timber are exposed to Chinese country risk. For a forest company in a developing market of China, the market risk premium multiplier has

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been set at 1.2 (please see below for more details of this multiplier). The market risk premium is therefore 6.0%.

CFK is of the view that although there is a need to align (where possible) the basis on which the various assumptions have been derived, the reality is that determination of both the equity beta and market risk premium will be dominated by non-Asia information. Therefore, the market risk premium applied for the Group's forests has been obtained using information from a number of sources and is not Asia/China-focused.

CFK following its own research and discussion with a number of forest investors, has concluded that it is more appropriate that both the market risk premium and beta are estimated using a global market portfolio, than to use a more localised approach. An additional advantage of a globalised approach is that long time series are available. CFK has made some allowance for the additional "risks" when determining the country risk multiplier. Furthermore, if one considers the market for forest products, a significant amount of forest products is traded internationally, either as raw material (e.g. logs) or partly processed products (e.g. pulp and timber) or finished products (e.g. paper and furniture), a large number of the forest products firms are global in nature. Similarly institutional investors which have significant investments in forests are increasingly global, with investments spanning a number of geographies.

CFK utilised a country attractiveness methodology originally developed by DANA/Manners in 1997, and now modified and adopted by RISI. The attractiveness index utilises assessments of (the index weightings are in brackets) policy consistency (11%), inflation (4%), economic climate (6%), deviation from purchasing power parity (4%), strength of the judicial system (11%), corruption (9%), foreign ownership provisions (7%), transport infrastructure (3%), local labour costs (3%), land tenure (13%), land availability (10%), market accessibility (10%), and biological and physical risk (9%). Each country was assigned a rating of 1 to 7 and an overall score was assigned for each country. This analysis was undertaken on 70 countries ranging from the United States to Zimbabwe. CFK based upon its experience broke the attractiveness rankings into five groups based upon their attractiveness scores. The first group had a risk multiplier of 1.0, the second 1.1, and the third 1.2. China at position 34 was in the third group, and so was assigned a multiplier of 1.2.

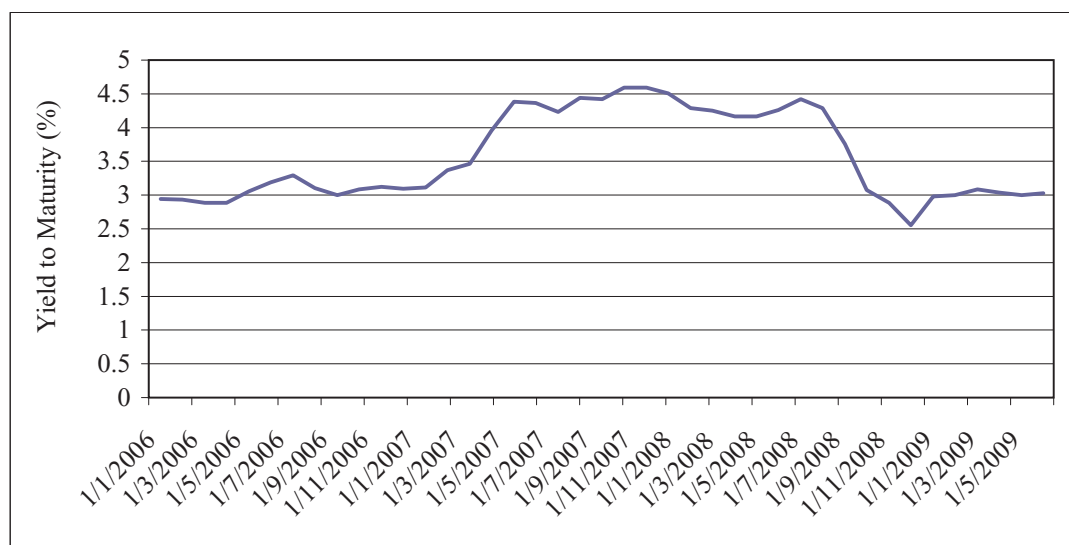
Risk Free Rate (Rf):

Risk free rate is calculated for the currency and inflation assumptions that underlie the cash flows of the operations. In this case it is the RMB. Accordingly, the risk free rate has been derived using the 9-year Chinese government bond. A 9-year bond was used because it was a readily available and more widely reported with lower volatility long term bond which can better reflect the long term nature of a forest investment than the shorter term bonds. Over the past two years, the yield to maturity of the 9-year Chinese government bond has been characterised by periods of relative stability followed by a rapid increase and then a further period of stability. Figure App 4.2 shows the last two years' yield to maturity of the 9-year Chinese government bond.

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Figure App 4.2 YIELD TO MATURITY OF THE RMB BASED CHINESE 9-YEAR GOVERNMENT BOND



Source: Bloomberg

The application of the yield to maturity of the 9-year Chinese government bond over the last two years is more appropriate as an average yield to maturity over a longer historical series will incorporate a number of extraneous events such as re-rating of Chinese government bonds by rating agencies (occurred between 2005 and 2007). CFK looked at the history during 2007 when selecting the risk free rate, given the significant change that occurred in late 2006.

Based upon Figure App 4.2, there appears to have been a re-rating of the 9-year bond in June of 2007. CFK has used 4.5% as an estimate of the risk free rate.

Long term inflation (I_x):

Long term inflation has been set at 4.4% representing Consensus Forecast's medium term inflation outlook for China. Consensus Forecast are a UK-based agency that provides consensus forecasts (mean) of key economic parameters provided by a number of economic forecasters. The consensus forecasts are obtained as the mean of the forecasts provided by a number of economic forecasters. The consensus forecasts for China are a consensus of the views of a number of forecasters, including some global investment banks.

CFK prefers a more forward-looking view of inflation rather than using what is in fact a mean reversion approach. If using a mean reversion approach, the debate will then becomes what period you use. Mean reversion in PRC would not take into account the recent economic growth that PRC has achieved which changes the economic environment, and this means that the past is not necessarily a good predictor of the future.

Consequently, CFK estimates the real, pre-tax, cost of capital for a forest owner at between 4.5% and 7.0%. This is the same as the real, post-tax, cost of capital as the Company did not need to pay any corporate tax during the Track Record Period.

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SUMMARY

The discount rate derived from the CAPM analysis is broadly consistent with the IDRs observed in both the Northern Hemisphere and Southern Hemisphere transactions. The issue then becomes what is the appropriate discount rate to use for a RMB denominated forest value for a forest situated in the PRC. Both the IDR analysis and the CAPM analysis generate discount rates that are significantly below the range used by other valuer's for forests in the PRC.

CHOICE OF DISCOUNT RATE

Valuation theory suggests that where possible, any adjustments for risk (political, foreign investment, foreign currency risk) should be made in the underlying cash flows and not through adjustments to the discount rate. In practice adjustments to the discount rate are generally made to account for intangible factors including the risk factors in the previous sentence. In undertaking an IAS 41 valuation, it is more appropriate given the definition of fair value in the standard to place more weight on the transactional evidence than other evidence, in order to meet the standard's definition of "*fair value*".

In order to derive the discount rate, the relative risk profile of the forests must be compared to the risk profile of the forests in the transaction database. Accordingly, CFK has assessed the risk of the Group's forests *relative to the forests in the transactional evidence* as follows.

There are a number of factors to be considered when evaluating the non-quantifiable risk profile of the forests:

- Security of tenure;
- Reliability of the area description;
- Reliability of the forest yield and growth projections;
- Cost profile; and
- Relevant log markets.

SICHUAN

In so far as the Group's Forests in Sichuan are concerned:

Negative factors (i.e. has a lower risk than the transactional evidence)

- As both the Group's inputs (both income and costs) and the valuation of the Group are denominated in RMB, currency translation is not required, and therefore there is no foreign exchange risk as a result of currency translation;
- Although volatility of a currency may affect the value of future cashflow in absolute term and requires a higher discount rate to compensate, RMB is a stable currency and has a less currency risk;

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- Most of the Group's forests are immediate harvestable, reducing the uncertainty in the growth of the Group's tree crop;
- There is security of land use and ownership of the trees;
- The cost profile compares favourably with other forestry organisations;
- The Group has a history of harvesting operations and established customer base; and
- The Sichuan log market is currently undersupplied and could easily absorb additional volume.

Positive factors (i.e. has a higher risk than the transactional evidence)

- There is only limited operating history of the Group;
- The rules and regulations of PRC regarding large scale commercially owned forestry are still evolving;
- The area description appears to have been based on a sound approach, but are less comprehensive than the forests in the transactional evidence;
- The base forest inventory is less comprehensive and reliable than the forests in the transactional evidence;
- Future growth rates under the proposed harvesting regime are uncertain; and
- The Group has been rapidly expanded during the past few years and approximately 85% of its Sichuan forests were acquired after 2006.

Based on the above, the Group's risk profile is considered to be positive (i.e. has a higher risk than average) relative to the forests in the transactional database. This is primarily because the forest description while suitable for the purposes of forest valuation is not as comprehensive as that found in the Northern Hemisphere and Southern Hemisphere transactions. In addition the forest industry is not as developed as that found in the other countries. On the positive side (that leads to a decrease in the risk profile) is that the industry is growing quickly and the PRC currently has a wood deficit, and hence, demand for wood in China is predicted to increase.

Selection of Discount Rate

The IAS 41 Fair Value discount rate is based on a 'willing buyer, willing seller' with no compulsion to act and is applied in the context of the value of The Group's estate as a whole.

The discount rate for the estate is viewed in the following context:

- CAPM analysis indicates that the discount rate should lie in the range of 4.5% to 7.0%; the mid point is 5.75%.

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- Southern Hemisphere transactional analysis indicates a discount rate of between 5.3% and 8.35%, with a mid point of 7.1%;
- Sales of Northern Hemisphere forests transact at around 6%; and
- The market for forest assets in the PRC is relatively undeveloped with few (if any) open market sales relative to the Northern Hemisphere and the Southern Hemisphere where the market consists of more "open market" transactions. This will result in a general risk premium over the transactional evidence.

The discount rate for a specific forest asset will vary depending on its specific, non-quantifiable risk profile. CFK is of the view that the risk profile of the Sichuan forests is greater than that represented in the transactional database and warrants a higher discount rate than the range indicated by the CAPM analysis and the transactional evidence.

The fundamental factors that affect forestry performance are favourable. Importantly, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. On this basis a valuation discount rate of 9.0% is indicated.

YUNNAN (Luxi)

In so far as The Group's forests are concerned:

Negative factors (i.e. has a lower risk than the transactional evidence)

- As both the Group's inputs (both income and costs) and the valuation of the Group are denominated in RMB, currency translation is not required, and therefore there is no foreign exchange risk as a result of currency translation;
- Although volatility of a currency may affect the value of future cashflow in absolute term and requires a higher discount rate to compensate, RMB is a stable currency and has a less currency risk;
- Most of the Group's forests are immediate harvestable, reducing the uncertainty in the growth of the Group's tree crop;
- The cost profile compares favourably with other forestry organisations; and
- There is security of land use and ownership of the trees; and
- The Group has secured some of the orders from its customers.

Positive factors (i.e. has a higher risk than the transactional evidence)

- Future growth rates under the proposed harvesting regime are uncertain;
- The area description appears to have been based on a sound approach, but are less comprehensive than the forests in the transactional evidence;

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- The base forest inventory is less comprehensive and reliable in the transactional evidence;
- The forests have only a limited harvest history and suitable log markets and solid customer base to allow harvesting to occur at the maximum rate still has to be developed; and
- The Yunnan forest market is not as well developed as those in Sichuan.

Overall The Group's risk profile is considered to be significantly positive (i.e. has a higher risk than average) relative to the forests in the transactional database, principally due to the lack of harvest history.

Selection of Discount Rate

The IAS 41 Fair Value discount rate is based on a 'willing buyer, willing seller' with no compulsion to act and is applied in the context of the value of The Group's estate as a whole.

The discount rate for the estate is viewed in the following context:

- CAPM analysis indicates that the discount rate should lie in the range of 4.5 to 7.0%, the mid point is 5.75%.
- Southern Hemisphere Transactional analysis indicates a discount rate of between 5.3% and 8.4%, with a mid point of 7.1%;
- Sales of Northern Hemisphere forests transact at around 6%; and
- The market for forest assets in the PRC is relatively undeveloped with few (if any) open market sales relative to the Northern Hemisphere and the Southern Hemisphere where the market consists of more "open market" transactions. This will result in a general risk premium over the transactional evidence.

The fundamental factors that affect forestry performance are favourable. Importantly, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. Having said that, CFK is of the view that the current risk profile of the Yunnan estate near Luxi is higher than the Group's forests in Sichuan province, and the discount rate should be significantly higher than that from the transactional evidence. The forest of the Group in Sichuan has an established sales record with sales and operations since 2003 whilst the Group's forest in Yunnan has only commenced sales since May 2008, such lack of historical sales order in the Group's Yunnan forest warrants a higher risk profile. On this basis a valuation discount rate of 11.0% is indicated.

YUNNAN (Wenshan)

In so far as The Group's forests are concerned:

Negative factors (i.e. has a lower risk than the transactional evidence)

- As both the Group's inputs (both income and costs) and the valuation of the Group are denominated in RMB, currency translation is not required, and therefore there is no foreign exchange risk as a result of currency translation;

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- Although volatility of a currency may affect the value of future cashflow in absolute term and requires a higher discount rate to compensate, RMB is a stable currency and has a less currency risk;
- Most of the Group's forests are immediate harvestable, reducing the uncertainty in the growth of the Group's tree crop;
- The cost profile compares favourably with other forestry organisations; and
- There is security of land use and ownership of the trees; and The Group has secured some of the orders from its customers

Positive factors (i.e. has a higher risk than the transactional evidence)

- Future growth rates under the proposed harvesting regime are uncertain;
- The area description appears to have been based on a sound approach, but are less comprehensive than the forests in the transactional evidence;
- The base forest inventory is less comprehensive and reliable in the transactional evidence;
- The forests are highly variable;
- The forests are currently being harvested and suitable log markets still has to be developed; and
- The Yunnan forest market is not as well developed as those in Sichuan.

Overall The Group's risk profile is considered to be significantly positive (i.e. has a higher risk than average) relative to the forests in the transactional database, principally due to the lack of harvest history and variability of the forest estate.

Selection of Discount Rate

The IAS 41 Fair Value discount rate is based on a 'willing buyer, willing seller' with no compulsion to act and is applied in the context of the value of The Group's estate as a whole.

The discount rate for the estate is viewed in the following context:

- CAPM analysis indicates that the discount rate should lie in the range of 4.5 to 7.0%, the mid point is 5.75%.
- Southern Hemisphere Transactional analysis indicates a discount rate of between 5.3% and 8.4%, with a mid point of 7.1%;
- Sales of Northern Hemisphere forests transact at around 6%; and
- The market for forest assets in the PRC is relatively undeveloped with few (if any) open market sales relative to the Northern Hemisphere and the Southern Hemisphere where the market consists of more "open market" transactions. This will result in a general risk premium over the transactional evidence.

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The fundamental factors that affect forestry performance are favourable. Importantly, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. Having said that, CFK is of the view that the current risk profile of the Wenshan estate is higher than the Group's forests in Sichuan province or in Luxi (Yunnan), and the discount rate should be significantly higher than that from the transactional evidence. The forest of the Group in Sichuan has an established sales record with sales and operations since 2003 and the Group's forest in Yunnan (Luxi) has commenced sales since May 2008. Wenshan has not harvest history and a more variable forest resource and warrants a higher risk profile.

On this basis a valuation discount rate of 13.0% is indicated.

CONCLUSION

The discount Rates used across The Group's estate are summarised in Table App 4.2 below.

Table App 4.2 DISCOUNT RATES

<u>Forest</u>	<u>Area-hectares</u>	<u>Value (RMB million)</u>	<u>Discount Rate</u>
Sichuan	12,447	1,067	9.00%
Yunnan-Luxi	59,333	4,466	11.00%
Yunnan-Wenshan	100,000	2,086	13.00%
Estate Average	171,780	7,619	12.02%

Overall the discount rate underlying the valuation of the Group's forests lies slightly higher than the range of 10% to 11.5% used by other forest valuers for forests situated in PRC. The discount rate falls outside the top end of the range of discount rates as indicated by the transactional evidence and the CAPM analysis which means that the additional return is required from forest assets at this stage of the industry's development in the PRC.

On the other hand, CFK noted from the 2008 annual report and valuation as at 31 December 2008 of Sino Forest, the circular of China Grand Forestry dated 24 July 2008, and the 31 March annual valuation of China Grand Forestry that such discount rate is marginally higher than the discount rate used by Poyry when valuing forests owned by Sino Forest (*Note 1*) and China Grand Forestry (*Note 2*) in the PRC. Such difference can be attributable to the following reasons:

- There is a significant difference in the underlying price assumptions between the approach used by Poyry and that adopted by CFK (as explained in detail below). While CFK adopts the current price for the valuation of the Group, CFK noted from the 2008 annual report and valuation as at 31 December 2008 of Sino Forest and the valuation as at 31 March 2008 of China Grand Forestry's tree crop that Poyry has applied real price increases for the first five period of the valuation;
- CFK noted from the 2007 annual report and valuation as at 31 December 2007 of Sino Forest that the valuation done by Poyry with respect to forest of Sino Forest was denominated in USD, with log prices and costs incurred in RMB. The RMB

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outcome generated from the RMB inputs is required to translate into USD for the valuation report. Such translation inherently involves foreign exchange risk; and

- The Group has been operating its business in Sichuan since 2003 with an established track record on sales.

Notes:

- (1) *Sino Forest is a company listed on the Toronto Stock Exchange. According to Sino-Forest Corporation's second quarter report 2008, its principal businesses are the ownership and cultivation of forest plantation trees, the sales of standing timber and harvested logs, and the complementary manufacturing of downstream engineered-wood products. As at 30 June 2008, it had approximately 327,000 hectares of forestry plantations located in southern, south-western and eastern China (including Yunnan but not Sichuan). According to the valuation report of Poyry dated 14 March 2008 for valuation of Sino-Forest's plantation assets as at 31 December 2007, as at 31 December 2007, the main tree species of Sino-Forest's plantation assets were Chinese fir, Eucalyptus and Pine, and other species included Acacia, Broadleaf, Paulonia and Poplar. According to Sino-Forest's short form document dated 7 May 2004, it has been operating forestry plantations in the PRC since 2005.*
- (2) *China Grand Forestry is a company listed on the Hong Kong Stock Exchange. According to its 2007/2008 annual report, as at 31 March 2008, its forest areas under management was over 5 million Chinese Mu (approximately 333,333 hectares), spreading across ten provinces in the PRC (including Yunnan but not Sichuan). The majority of its trees are pine, mixed hard wood, fir and broad leaf trees. They sell processed standard timber, pulpwood and standing timber and their operations involves plantation of saplings, fast-growing and high-yield plantation and low-yield plantation improvement.*

CFK has used current prices for its valuation of the Group's forests. According to paragraph 17 of IAS 41, if an active market exists for a biological asset or agricultural produce, the quoted price in that market is the appropriate basis for determining the fair value of that asset. According to paragraph 20 of IAS 41, when market-determined prices or values is not available for a biological asset in its present condition, the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate is used to determine the fair value. When estimating the future selling price for the purposes of discounting expected net cash flows, current market conditions will generally provide the best evidence on which to base estimates.

CFK has undertaken the valuation by using current prices which are then held constant in real terms for the period of the valuation (that is, prices will increase in line with inflation). CFK noted that Poyry has applied real price increases for the first 5 years of the valuation (that is, prices will increase faster than the rate of inflation) after which the prices are held constant. This is a more aggressive approach to pricing and hence has inherently more risk and would attract a higher discount rate. Based upon some analyses CFK has conducted on the Southern Hemisphere transactional analysis, the difference in the imputed IDR between the two pricing approaches is around 1 to 2 percentage points. This is similar to the difference in the two discount rates adopted by Poyry (as noted by CFK) and CFK.

NON END-OF-YEAR VALUATION

Besides the valuation as at 31 December 2007, CFK has also undertaken valuation for the Group's forestry assets as at 30 June 2008. Instead of running the valuation model again, the valuation as at 30 June 2008 is derived by adjusting the December 2007 base model to account for volume harvested and the passage of time. The valuation inputs (such as log prices, costs and yield) are unchanged from those used in the December 2007 valuation.

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CFK has also completed a valuation of the Group's forestry assets as at 31 December 2008 and as at June 2009. Instead of running the valuation model again, the valuation as at 30 June 2009 is derived by adjusting the December 2008 base model to account for volume harvested and the passage of time. The valuation inputs (such as log prices, costs and yield) are unchanged from those used in the December 2008 valuation.

Unless there were significant and permanent changes to prices and costs, there was no need to re-run the estate optimisation model to calculate the mid year value. Instead, the end-of-year valuation model was adjusted for the volume harvested, and any costs incurred between the end-of-year valuation and the valuation date, and the first period of the valuation reduced to reflect the balance of time to the end of the year. This has the effect of reducing the period over which the future cash flows are discounted. The principle reason for this is that forest growth does not occur evenly throughout the year and the convention is to assume that growth occurs at the same time as the trees birth-date. Without volume growth and significant changes in prices/costs, the model would not generate a significantly different answer to that provided by the year-end model.

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APPENDIX 5 GLOSSARY

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LIST OF ACRONYMS

AAC	Annual Allowable Cut
AMG	At Mill Gate
CEIC Data	CEIC Data Company Limited a provider of financial information specialising on Asia and emerging markets
CFK	Chandler Fraser Keating Limited
CIF	Cost, Insurance and Freight
cm	Centimetre
DANA LTD	A specialist in global forest resources and pup log and wood chip supply and demand
ha	Hectare
Fuelwood	Wood used as fuel, usually lower quality logs
Hardwood	Tree species distinguished from softwoods by cell structure. Examples include Birch, Beech and Alder.
HDF	High Density Fibreboard
ITR	Independent Technical Review
MDF	Medium Density Fibreboard
m	Metre
m ³	Cubic metre
RISI	A leading information provider for the global forest products industry
Roundwood	Wood in log form
SFA	State Forestry Administration
Softwood	Tree species distinguished from hardwoods by cell structure. Examples include Chinese Fir, Radiata pine, Russian pine and Larch, and Cedar. Temperate Hardwood Hardwoods grown in temperate climate.
The Group	China Forestry Holding Co., Ltd
Tropical Hardwood	Hardwoods grown in tropical climate (Eg Papua New Guinea)
UNCE	United Nations Economic Commission for Europe
USD	United States Dollars
WTA	World Trade Atlas
Yuan or RMB	Chinese yuan
YTD	Year to Date

AREA CONVERSION FACTORS

Area	1.0 Mu = 666.7 m ²
	1.0 ha = 15.0 Mu
	1.0 acre = 5.9 Mu

APPENDIX VI

SUMMARY OF OUR CONSTITUTION AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 December 2007 under the Cayman Companies Law. The Memorandum and the Articles of Association comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 5 November 2009. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the

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Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all

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respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

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- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as

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used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

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- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Cayman Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed

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with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Cayman Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that

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class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of

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calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company

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at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and an extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (2) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the Designated Stock Exchange (as defined in the Articles), it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together

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holding not less than ninety-five (95) per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of

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title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Cayman Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the

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directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All

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dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all

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monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of

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the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

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(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

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(e) Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 8 January 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

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(m) Inspection of corporate records

Members of the Company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be

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signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent

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any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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STATUTORY AND GENERAL INFORMATION

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 21 December 2007. We have been registered as non-Hong Kong company under Part XI of the Companies Ordinance and our principal place of business in Hong Kong is at Room 2507 on 25th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Mr. Tong Wai Kit, Raymond of Room 610, 6/F, Tai Hang Terrace, 5 Chun Fai Road, Hong Kong, a Hong Kong resident, has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and an articles of association. A summary of the relevant aspects of the Cayman Islands company law and certain provisions of the Articles of Association is set out in Appendix VI to this document.

2. Changes in share capital of our Company

- (a) As at the date of incorporation of our Company, its authorised share capital was US\$50,000 divided into 5,000,000 shares of US\$0.01 each. On 21 December 2007, one Share of US\$0.01 of our Company was allotted and issued fully paid to Codan Trust Company (Cayman) Limited, which was subsequently transferred to Kingfly Capital.
- (b) On 8 January 2008, each share of US\$0.01 in the authorised share capital and the issued share capital of the Company was subdivided into 10 Shares of US\$0.001 each and 28,499,990, 288,495 and 11,505 Shares were respectively allotted and issued, to Kingfly Capital, CAGP and CAGP Coinvestment.
- (c) On 8 January 2008, Kingfly Capital transferred 480,825 and 19,175 Shares to CAGP and CAGP Coinvestment respectively.
- (d) On 19 March 2008, 3,077,280 Shares and 122,720 Shares were allotted and issued to CAGP and CAGP Coinvestment, respectively.
- (e) On 31 March 2008, Kingfly Capital further transferred 3,200,000 Shares and 320,000 Shares to Top Wisdom and Victory Early respectively.
- (f) On 26 June 2009, Kingfly Capital transferred 69,685 Shares, 2,779 Shares, 125,604 Shares and 19,324 Shares to CAGP, CAGP Coinvestment, Partners Group Access and International Fund on account of IFM-Invest: 2 PrivateEquity, respectively;
- (g) On 26 June 2009, Top Wisdom transferred 41,811 Shares, 1,667 Shares, 75,362 Shares and 11,594 Shares to CAGP, CAGP Coinvestment, Partners Group Access and International Fund on account of IFM-Invest: 2 PrivateEquity, respectively;
- (h) On 26 June 2009, 1,142,830 Shares, 45,575 Shares, 2,059,904 Shares and 316,908 Shares were allotted and issued to CAGP, CAGP Coinvestment, Partners Group

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Access and International Fund on account of IFM-Invest: 2 PrivateEquity, respectively;

- (i) On 23 September 2008, Shareholders' resolutions were passed to approve, among other things, the increase of authorised share capital of our Company from US\$50,000 to US\$100,000,000; and

Save as disclosed in this document, there has been no alteration in our Company's share capital since its incorporation.

3. Changes in share capital of the subsidiaries

Save as set out above and in the paragraph headed "Reorganisation of our Company" under the section headed "History, Reorganisation and Corporate Structure" there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this document.

4. Written resolutions of our Shareholders

Pursuant to the written resolutions of all the shareholders entitled to vote at general meetings of our Company, which were passed on 23 September 2008 and 5 November 2009:

- (a) the authorised share capital of our Company was increased from US\$50,000 to US\$100,000,000 by the creation of 99,950,000,000 Shares of US\$0.001 each ranking *pari passu* in all respects with the Shares in issue as at 23 September 2008;
- (b) the sum of US\$2,214,435 be capitalised and be applied in paying up in full at par 2,214,434,783 Shares for allotment and issue to the Shareholders whose names were on the register of members of our Company as at the close of business on 5 November 2009 in proportion (as nearly as possible without involving fractions) to its (their) then existing shareholdings in our Company and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
- (c) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options which may be granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue;

For the purpose of this paragraph, "Rights Issue" means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to

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subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognised regulatory body or any stock exchange applicable to our Company);

- (d) the Articles of Association were adopted.

B. CORPORATE REORGANISATION

For information with regard to our corporate reorganisation, please refer to the paragraph headed "Reorganisation of our Group" of the section headed "History, Reorganisation and Corporate Structure" in this document.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this document and are or may be material:

- (a) a sale and purchase agreement in Chinese dated 28 December 2007 entered into between Sky Famous and Mr. Li Kwok Cheong pursuant to which Sky Famous acquired 1 share in the share capital of China Zhaoneng from Mr. Li Kwok Cheong for a consideration of HK\$1.00.
- (b) the First Share Purchase Agreement;
- (c) the First Shareholders' Agreement;
- (d) the Accession and Amendment Agreement;
- (e) the Second Amendment Agreement;
- (f) a forestry right transfer agreement in Chinese and a supplemental agreement in Chinese dated 19 March 2008 and 17 April 2008 respectively entered into between Beijing Zhaolin and Kunming Ultra Big pursuant to which Kunming Ultra Big acquired all the forestry rights of Beijing Zhaolin in Sichuan forests for a consideration of RMB122,428,723;
- (g) an amendment agreement in Chinese dated 11 March 2008 and entered into between 中國人民財產保險股份有限公司四平市分公司第一營業部 (PICC Property and Casualty Company Limited Si Ping City Branch First Operation Department), Beijing Zhaolin and Kunming Ultra Big pursuant to which Beijing Zhaolin transferred its rights and obligations as the proposer and the insured under all the then effective insurance policies it maintained with PICC Property and Casualty Company Limited Si Ping City Branch First Operation Department to Kunming Ultra Big;

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- (h) an amendment agreement in Chinese dated 14 March 2008 and entered into between Beijing Zhaolin and Kunming Ultra Big pursuant to which Beijing Zhaolin transferred and assigned to Kunming Ultra Big (1) its rights and obligations under a pre-purchase agreement entered into with an Independent Third Party on 12 December 2007; (2) the prepayment in the amount of RMB5,000,000 to secure its exclusive right to acquire the forests under the pre-purchase agreement;
- (i) a supplemental agreement to the amendment agreement mentioned in item (g) above in Chinese dated 4 June 2008 and entered into between Beijing Zhaolin and Kunming Ultra Big pursuant to which Kunming Ultra Big agreed to return to Beijing Zhaolin the relevant insurance premium in the amount of RMB14,396,959.62 previously paid by Beijing Zhaolin;
- (j) a supplemental agreement to the amendment agreement mentioned in item (h) above in Chinese dated 4 June 2008 and entered into between Beijing Zhaolin and Kunming Ultra Big pursuant to which Kunming Ultra Big agreed to return to Beijing Zhaolin the prepayment in the amount of RMB5,000,000 previously paid by Beijing Zhaolin;
- (k) a deed of representation dated 16 September 2008 entered into between Mr. Li Kwok Cheong and our Company under which Mr. Li Kwok Cheong made certain representations in respect of the forestry rights and the 1 share in the share capital of China Zhaoneng transferred to the Group under items (a) and (f) above in favour of our Company;
- (l) a deed of indemnity dated 20 August 2008 entered into between Mr. Li Kwok Cheong, Kingfly Capital and our Company for itself and as trustee for its subsidiaries under which Mr. Li Kwok Cheong and Kingfly Capital provided certain indemnities in favour of our Group containing, among others, the indemnities referred to the subparagraph headed "Indemnity" under the paragraph headed "Other Information" in this Appendix, which has lapsed and is superseded by the deed of indemnity dated 6 November 2009 mentioned in item (p) below;
- (m) a non-competition deed in Chinese dated 23 September 2008 entered into by the Controlling Shareholders in favour of our Company, details of which are disclosed in the section headed "Relationship with Controlling Shareholders", which has lapsed and is superseded by the non-competition deed dated 6 November mentioned in item (q) below;
- (n) the Second Share Purchase Agreement;
- (o) the Second Shareholders' Agreement;
- (p) a deed of indemnity dated 6 November 2009 entered into between Mr. Li Kwok Cheong, Kingfly Capital and our Company for itself and as trustee for its subsidiaries under which Mr. Li Kwok Cheong and Kingfly Capital provided certain indemnities in favour of our Group containing, among others, the indemnities referred to the subparagraph headed "Indemnity" under the paragraph headed "Other Information" in this Appendix;

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- (q) a non-competition deed in Chinese dated 6 November 2009 entered into by the Controlling Shareholders in favour of our Company, details of which are disclosed in the section headed "Relationship with Controlling Shareholders";

2. Intellectual Property Rights of our Group

Trademarks

As at the Latest Practicable Date, we have the right to use the following trademarks:

Trademark	Place of Registration	Class	Registration Number	Expiry Date
	Hong Kong	19, 35	301074618	17 March 2018
 中国森林控股有限公司 China Forestry Holdings Co., Ltd.	Hong Kong	19, 35	301074636	17 March 2018
兆能	Hong Kong	19, 35	301074627	17 March 2018

As at the Latest Practicable Date, applications have been made for the registration of the following trademarks:

Trademark	Place of Application	Class	Application Number	Application Date
	PRC	19	6527863	24 January 2008
	PRC	35	6527864	24 January 2008
兆能	PRC	19	6527861	24 January 2008
兆能	PRC	35	6527862	24 January 2008

Domain Name

As at the Latest Practicable Date, we have registered the following domain name:

Registrant	Domain Name	Expiry Date of Registration
Kunming Ultra Big	www.chinaforestryholding.com	12 January 2010

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3. Further information about our PRC establishments

(a) Chengdu Yishang

(i) nature of the company:	wholly foreign-owned enterprise
(ii) term of business operation:	30 years commencing on 21 March 2008
(iii) registered capital:	US\$29 million
(iv) attributable interest of the company:	100%
(v) scope of business:	planting of trees and seedlings, production and sale of self-made seedlings and timbers, and provision of relevant technology services and consultation

(b) Kunming Ultra Big

(i) nature of the company:	wholly foreign-owned enterprise
(ii) term of business operation:	30 years commencing on 7 March 2008
(iii) registered capital:	US\$50 million
(iv) attributable interest of the company:	100%
(v) scope of business:	planting of trees and seedlings, production of seedlings and timbers, sale of self-made products, and provision of relevant technology services and consultation

D. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Directors' service contracts

Each of our Directors has entered into a service contract with us for an initial fixed term of three years.

Each of our executive Directors is entitled to the respective basic salary set out below. They are also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year may not exceed 2% of our turnover as shown in our audited consolidated financial statements in respect of that financial year. An executive Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of the executive Directors under the current service contract with us are as follows:

<u>Name</u>	<u>Annual Amount</u>
Li Kwok Cheong	RMB1.2 million
Li Han Chun	RMB1.2 million

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

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2. Directors' remuneration during the Track Record Period

For the three years ended 31 December 2006, 2007 and 2008 and the six months ended 30 June 2009, the aggregate of the remuneration paid and benefits in kind (excluding share-based payments) granted to our Directors by us and our subsidiaries was RMB318,748, RMB380,966, RMB1,480,000 and RMB534,755, respectively.

The fees or contributions to pension schemes or retirement benefit plans payable by us to or on behalf of our directors during these periods was approximately RMB19,016 and RMB21,164, RMB23,354 and RMB12,686 respectively.

During the Track Record Period, Mr. Li Han Chun, our executive Director, was the only Director who has received remuneration from us. Save as disclosed in this document, no other emoluments have been paid or are payable by us to our Directors during the Track Record Period.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus and share-based payments) for the year ending 31 December 2009 will be approximately RMB786,413.98.

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The following persons are directly and/or indirectly interested in 5% or more of the nominal value of share capital carrying rights to vote in general meetings:

<u>Name</u>	<u>Capacity/ Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding</u>
Kingfly Capital <i>(Note 1)</i>	Beneficial Owner	1,534,950,000	51.17%
	Security Interest	75,000,023	2.5%
Mr. Li Kwok Cheong <i>(Note 1)</i>	Interest in controlled corporation	1,534,950,000	51.17%
	Security Interest	75,000,023	2.5%
CAGP <i>(Note 2)</i>	Beneficial owner	322,650,000	10.76%
CAGP General Partner, L.P. <i>(Note 2)</i>	Interest in controlled corporation	335,475,000	11.18%
CAGP Ltd. <i>(Note 2)</i>	Interest in controlled corporation	335,475,000	11.18%
TC Group Cayman Investment Holdings, L.P. <i>(Note 2)</i>	Interest in controlled corporation	335,475,000	11.18%
TCG Holdings Cayman II, L.P. <i>(Note 2)</i>	Interest in controlled corporation	335,475,000	11.18%
Carlyle Offshore Partners II, Limited <i>(Note 2)</i>	Interest in controlled corporation	335,475,000	11.18%
Top Wisdom Overseas Holdings Limited <i>(Note 3)</i>	Beneficial owner	194,175,000	6.47%
Mr. Li Han Chun <i>(Note 3)</i>	Interest in controlled corporation	194,175,000	6.47%
Partners Group AG <i>(Note 4)</i>	Investment Manager	165,150,000	5.51%
Partners Group Holding AG <i>(Note 5)</i>	Interest in controlled company	165,150,000	5.51%

Notes:

1. Kingfly Capital is wholly-owned and controlled by Mr. Li Kwok Cheong and Mr. Li Kwok Cheong is therefore deemed to be interested in the Shares held by Kingfly Capital.

Kingfly Capital, as the chargee in respect of a charge made by Top Wisdom as the chargor over 75,000,023 Shares has a security interest over such Shares.

2. CAGP General Partner, L.P. is the general partner of CAGP and CAGP Coinvestment which collectively are interested in 11.18% of the total issued share capital of the Company. CAGP General Partner, L.P. itself acts by its general partner, CAGP Ltd., which in turn is 100% owned, controlled and managed by TC Group Cayman Investment Holdings, L.P., the general partner of which is, TCG Holdings Cayman, L.P.. Carlyle Offshore Partners II, Limited is the general partner of TCG Holdings Cayman II, L.P.. Each of CAGP General Partner, L.P., CAGP Ltd., TC Group Cayman Investment Holdings, L.P., TCG Holdings Cayman II, L.P. and Carlyle Offshore Partners II is deemed to be interested in the Shares held by CAGP and CAGP Coinvestment.

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3. *Top Wisdom is wholly-owned and controlled by Mr. Li Han Chun and Mr. Li Hun Chun is therefore deemed to be interested in the Shares held by Top Wisdom.*

Top Wisdom Overseas Holdings Limited, as the chargor, has created a charge in favour of Kingfly Capital, as the chargee, over 75,000,023 Shares.

4. *Partners Group Management (Scotland) Limited, the general partner of Partners Group Access, which is interested in 4.77% of the total issued share capital of the Company, is accustomed to act in accordance with the direction of Partners Group AG. In addition, Partners Group AG has discretion to make decisions regarding the exercise of the voting rights attributable to the 0.74% interest in the Company held by International Fund on account of IFM-Invest: 2 PrivateEquity. Partners Group AG is therefore, deemed to be interested in 5.51% of the total issued share capital of the Company.*

5. *Partners Group AG is a wholly-owned subsidiary of Partners Group Holding AG, which is, therefore, deemed to be interested in 5.51% of the total issued share capital of the Company.*

2. Disclaimers

Save as disclosed in this document:

- (c) none of the Directors nor any of the parties listed in the section headed "Other Information — Consents of experts" of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to us or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of its subsidiaries;
- (d) none of the Directors nor any of the parties listed in the section headed "Other Information — Consents of experts" of this Appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business;

F. OTHER INFORMATION

1. Indemnity

Mr. Li Kwok Cheong and Kingfly Capital (together, the "Indemnifiers") have, under a deed of indemnity referred to in paragraph (I) of the sub-section headed "Summary of the material contracts" in this Appendix VII, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things, (a) taxation (including estate duty) resulting from any income, profits, gains earned, accrued or received, entered into or occurring; (b) any non-compliance with any laws and/or regulations by any member of the Group, which includes any losses, damages, costs, expenses, of whatever kind or nature, imposed upon or incurred by or asserted against any of the members of the Group and directly or indirectly arising out of or in any way relating to any violation or non-compliance of environmental laws and obligations to undertake environmental impact assessments under the relevant PRC laws and regulations; (c) any liability of any member of the Group to make any payment and/or to transfer any assets in connection with any allegation and/or claim that any transfers of businesses and/or assets as part of the Reorganisation are void or voidable as a result of the insolvency or lack of governmental approval or similar event of any one party to the Reorganisation; (d) all actions, claims, losses, damages, costs (including all legal costs), charges, expenses, interests, penalties or other liabilities which our Company may reasonably and properly incur in connection with (i) the investigation, assessment or the

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contesting of any claim; (ii) the settlement of any claim; (iii) any legal proceedings in which any member of the Group claims under the deed of indemnity and in which judgment is given in favour of any member of the Group; or (iv) the enforcement of any such settlement or judgment in respect of any claim; (e) any fines, penalties, charges, losses, damages and liabilities (including and without limitation to any legal costs) which may be incurred or suffered by any member of the Group arising from or in connection with any claim or liability arising from or in connection with any liability of Beijing Zhaolin (including but not limited to the failure to pay social security insurance contributions and the housing fund contributions/fees in the PRC according to the relevant local and regulations for any period); and (f) any losses and damages suffered by any member of the Group as a result of, in connection with or due to the lack of valid title certificates and/or proper registration in respect of the Group's leased properties in the PRC.

The Indemnifiers will however, not be liable under the deed of indemnity in respect of taxation or liability:

- (a) to the extent that provision, reserve or allowance has been made for such taxation liability or claim in the audited combined accounts of the Group for each of the three financial years ended 31 December 2008 and the six months ended on 30 June 2009 or in the audited accounts on the relevant members of the Group for the three financial years ended 31 December 2008 and the six months ended on the 30 June 2009; or
- (b) to the extent of any provision or reserve made for such taxation in the audited combined accounts of the Group for each of the three financial years ended 31 December 2008 and the six months ended on 30 June 2009 or in the audited accounts on the relevant members of the Group for the three financial years ended 31 December 2008 and the six months ended on the 30 June 2009 which is finally established to be an over-provision or an excessive reserve in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to this item (c) to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter;
- (c) to the extent that such taxation or liability is discharged by another person who is not the Company or a member of the Group and that the Company or such member of the Group is not required to reimburse such person in respect of the discharge of the taxation or liability; or
- (d) for which the Company is primarily liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business.

2. Litigation

As at the Latest Practicable Date, neither we nor any of our subsidiaries are/is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or

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against us, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary Expenses

Our estimated preliminary expenses are approximately HK\$30,000 and have been paid by us.

4. Promoter

The promoter of our Company is Li Kwok Cheong. Save as disclosed in this document, no cash, securities or other benefit has been paid, allotted or given, or proposed to be paid, allotted or given, to the promoters within two years preceding the date of this document.

5. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 30 June 2009 (being the date to which our latest audited combined financial statements were made up).

6. Binding Effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

7. Miscellaneous

(1) Save as disclosed in this document:

- (a) within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) within the two years immediately preceding the date of this document, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) within the two years preceding the date of this document, no commission has been paid or payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) we have no outstanding convertible debt securities.

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- (2) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this document.

8. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this document:

<u>Name</u>	<u>Qualification</u>
KPMG	Certified Public Accountants
Commerce & Finance Law Offices	PRC legal advisers to the Company
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Greater China Appraisal Limited	Independent professional property valuer
Chandler Fraser Keating Limited	Independent forestry consultant

9. Consents of experts

Each of KPMG, Commerce & Finance Law Offices, Conyers Dill & Pearman, Greater China Appraisal Limited and Chandler Fraser Keating Limited has given and has not withdrawn their respective consent to the issue of this document with the inclusion of its opinion and/or report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.