

OVERVIEW

Products and Market Share

We are the largest wood flooring brand in China in terms of market share⁽¹⁾ by retail sales value of branded wood flooring products. According to Frost & Sullivan, our “Nature” branded products accounted for 6.5% market share in terms of China’s total retail sales value of branded wood flooring products in 2009. Our branded products are manufactured through a combination of our own factories and exclusive authorized manufacturers.⁽²⁾ Authorized manufacturers are independent third parties (other than the two joint venture authorized manufacturers added in January 2011 to manufacture our branded laminated flooring products). Authorized manufacturers manufacture only our branded products and must sell these products exclusively to distributors in our distribution network directly, for which we charge trademark and distribution network usage fees but do not generate revenue from sales of those branded products. In 2008, 2009 and 2010, trademark and distribution network usage fees earned from authorized manufacturers accounted for approximately 17.3%, 16.2% and 12.4% of our total revenues, respectively, and the gross profit generated from such fees earned from authorized manufacturers accounted for 44.1%, 44.1% and 39.3% of our total gross profit, respectively.

According to Frost & Sullivan, in 2009, our branded products ranked second in laminated flooring with a 7.2% market share, first in multi-layered engineered flooring with a 5.3% market share and first in solid wood flooring with a 7.4% market share, in terms of retail sales value in China. We were the only company to achieve a top two market share position across the three primary wood flooring product categories in China in 2009. Leveraging our strong brand, extensive distribution network, comprehensive product portfolio and flexible manufacturing model, we grew rapidly and gained market share in China during the Track Record Period.

Product Manufacturing

Through partnering with authorized manufacturers, we can maintain manufacturing flexibility and expand the manufacturing capacity available to us without significant capital expenditures for factory expansion. We also reduce our exposure to inventory backlog and price fluctuations in raw materials and finished products, which are borne by authorized manufacturers relating to the branded products manufactured by them. Our strategy is to continue to expand our network of authorized manufacturers to manufacture an increasing proportion of our branded products across our product portfolio while at the same time selectively expanding and upgrading certain of our own factories in order to maintain a strategic mix of manufacturing capacity. As our products are targeted at customer groups with different purchasing power and various personal and artistic tastes, there is no competition between our different product categories. Instead of focusing on the development of a core product, we

Notes:

- (1) The market share data includes retail sales value of branded products manufactured at our own factories and by authorized manufacturers from whom we receive trademark and distribution network usage fees. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own factories accounted for 60.5%, 66.7% and 67.3% of the total Wholesale Volume of our branded products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 37.7%, 31.4% and 30.3%, respectively.
- (2) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and a majority of branded engineered flooring were manufactured by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1%, respectively.

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aim to expand and diversify our branded product portfolio to capture market opportunities and meet consumer preferences.

Set forth below is the Wholesale Volume of each product category of our branded products for the periods indicated:

	Year Ended December 31,					
	2008		2009		2010	
	Wholesale Volume ⁽¹⁾	% of Total Volume ⁽²⁾	Wholesale Volume ⁽¹⁾	% of Total Volume ⁽²⁾	Wholesale Volume ⁽¹⁾	% of Total Volume ⁽²⁾
	(sq.m. in thousands, except percentages) ⁽³⁾					
<i>Products manufactured at our own factories⁽⁴⁾</i>						
Laminated flooring	6,967	54.2%	10,561	62.6%	13,915	60.8%
Engineered flooring	812	6.3	687	4.1	1,483	6.5
Subtotal	<u>7,779</u>	<u>60.5</u>	<u>11,248</u>	<u>66.7</u>	<u>15,398</u>	<u>67.3</u>
<i>Products manufactured by authorized manufacturers⁽⁴⁾</i>						
Engineered flooring	1,096	8.5	1,609	9.5	2,333	10.2
Solid wood flooring	3,753	29.2	3,691	21.9	4,604	20.1
Subtotal	<u>4,849</u>	<u>37.7</u>	<u>5,300</u>	<u>31.4</u>	<u>6,937</u>	<u>30.3</u>
<i>Others</i>						
Bamboo flooring, cork flooring and spare parts	233	1.8	314	1.9	541	2.4
Total	<u>12,861</u>	<u>100.0%</u>	<u>16,862</u>	<u>100.0%</u>	<u>22,876</u>	<u>100.0%</u>

Notes:

- (1) Wholesale Volume means the volume of our branded flooring products that we and/or authorized manufacturers, as applicable, sell directly to our exclusive distributors, property development companies and home furnishing supermarkets in China, excluding an immaterial portion of our branded products sold overseas.
- (2) It represents the percentage of the total Wholesale Volume of our branded products manufactured at our own factories and by authorized manufacturers combined.
- (3) Flooring products are sold by square meters. There is no uniform size for the finished product of each product category as each product category may vary in length, width and height.
- (4) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and a majority of branded engineered flooring were manufactured by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1%, respectively.

Our Brands

Launched in 2001, our self-owned “Nature” (大自然) brand has been successfully positioned with consumers to represent high product quality and product safety as well as health and environmental awareness, which also reflect our core values and form the focus of our brand management and product strategy. Our industry-leading brand has received numerous awards and recognitions. For example, our “Nature” (大自然) brand was the only flooring brand ranked among China’s 100 most valuable brands in 2010, according to the World Brand Laboratory. Leveraging on the success of the “Nature” (大自然) brand, we have introduced four sub-brands under the “Nature”

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(大自然) umbrella to target different customer segments — “Nature · Woodsbür” (大自然 · 德獅堡), “Nature · No. 1 My Space” (大自然 · 第一空間), “Nature · Aesthetics” (大自然 · 美學館) and “Nature · Yijia” (大自然 · 宜家), which were launched in 2007, 2007, 2008 and 2007, respectively. We believe the history and consumer recognition of the “Nature” (大自然) brand provides us with a significant competitive advantage, both in terms of attracting and retaining authorized manufacturers and exclusive distributors and of driving end market consumer demand.

Distribution Network

Our branded products are sold primarily to retail consumers in China through an extensive nationwide distribution network of exclusive distributors and Retail Stores. As of December 31, 2010, our nationwide distribution network comprised over 2,100 exclusive distributors and 2,900 Retail Stores covering over 1,600 cities located in all of China’s provinces and autonomous regions, including all 31 provincial capital cities and municipalities and over 260 district-level cities, as well as over 1,300 county-level cities, throughout China. According to Frost & Sullivan, as of December 31, 2010, we managed the largest wood flooring product distribution network in China in terms of the number of retail stores. Our distribution network is closely managed and supported by our sales team, which consisted of approximately 370 full-time sales representatives as of December 31, 2010.

Branding Strategy

We believe our comprehensive branded product portfolios in the industry provides us with a competitive advantage in attracting distributors and retail consumers. As of December 31, 2010, our branded product portfolio consisted of over 1,000 product SKUs, covering the five most popular wood flooring categories in China (laminated flooring, engineered flooring, solid wood flooring, bamboo flooring and cork flooring) and targeting multiple customer segments across a wide range of price points. In 2010, the Wholesale Volume⁽¹⁾ of our branded laminated flooring, engineered flooring and solid wood flooring, each including products manufactured at our own factories and/or those manufactured by authorized manufacturers, accounted for 60.8%, 16.7%, and 20.1% of the total Wholesale Volume of our branded products, respectively. We have a proven track record of strong product development and innovative product design, which we believe differentiates us from our competitors. During the Track Record Period, we introduced over 100 new product SKUs to the market each year, including developing and launching innovative new product types. For example, we were one of the first companies in China to develop and launch eco flooring with 40 product SKUs in 2008. We also developed creative-style flooring with 200 product SKUs in 2009 and anion-zero-carbon flooring with 50 product SKUs in 2010.

Forestry Management and Harvesting

We began to selectively acquire strategic upstream forest assets in 2009 to secure reliable sources of timber. We acquired the rights to harvest approximately 46,347 hectares of standing timber located in Peru in December 2009 at a consideration of approximately RMB19.0 million. We completed the acquisition of standing trees and related concession rights in approximately 4,445 hectares of forests located in Yunnan Province, China in 2010 at a consideration of approximately

Note:

- (1) Wholesale Volume means the volume of our branded flooring products that we and/or authorized manufacturers, as applicable, sell directly to our exclusive distributors, property development companies and home furnishing supermarkets in China, excluding an immaterial portion of our branded products sold overseas.

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RMB41.5 million. We recorded net change in fair value of our forest assets in Yunnan and Peru in 2009 and 2010, which was primarily due to the fair valuation of the Yunnan and Peru forest assets conducted by Pöyry being higher than the consideration that we paid for the acquisition, which was determined through arm's length negotiation with the vendors based on the factors such as the suitability of the timber for wood flooring and the demand for wood flooring products made of such timber rather than market valuation.

Set forth below is certain information relating to the net change in fair value of our forest assets for the periods indicated.

	For the Year Ended December 31,		
	2008	2009	2010
	(RMB in thousands, except percentages)		
Net change in fair value of biological assets	—	81,869	106,798
As a percentage of profit from operations	—	24.6%	24.1%

As of December 31, 2010, we owned standing trees and related concession rights in 4,445 hectares and 46,347 hectares of forests in Yunnan Province, China and Loreto Province, Peru, respectively. These forests contain several species of trees which are used in premium solid wood flooring products, such as jatoba (學葉蘇木) and cumaru (二翅豆). We expect our investment in forest assets to help ensure a more stable supply of high-quality timber for authorized manufacturers in connection with their manufacturing of our branded solid wood flooring products, through which we hope to reinforce the loyalty of authorized manufacturers and better assure we receive stable fees from authorized manufacturers.

We plan to start the commercial logging of our forests in Yunnan and Peru in the second half of 2011 and by the end of June 2011, respectively. We will engage independent third-party local contractors to manage the logging, transporting and handling of the logistic activities for both our Yunnan and Peru forests. We are in close discussion with an independent third-party local contractor, who has several years of experience in conducting local logging activities, to engage it as our operator for our Peru forest. We have no prior experience in managing forest assets. To ensure our forest assets will be run in an effective and efficient manner, we have recruited a team of three experienced in-house forest engineers for each of our Yunnan and Peru forests. The team of in-house forest engineers have an average experience of 20 years in Yunnan and 15 years in Peru forestry sectors, respectively. The team of in-house forest engineers will manage and monitor day-to-day operation as well as compliance related matters for our Yunnan and Peru forests. We believe this will help us adequately maintain effective and sustainable forestry operations. In this regard, we will follow all reforestation requirements set forth in any relevant logging permits required for commercial logging in both forests, as well as any required management or operational plans.

Trading Business

We also engage in trading of timber and flooring products. For flooring trading, our wholly-owned subsidiary located in the U.S., Nature Flooring Industries, Inc., purchases laminated flooring,

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engineered flooring and solid wood flooring from our own factories, authorized manufacturers and other flooring manufacturers, and then sells these products under our brands to customers in overseas markets. Our trading business allows us to expand the distribution of our branded flooring products overseas. For timber trading, we purchase timber from overseas timber dealers and sell the timber to various customers in China, including authorized manufacturers of our branded products and other wood products manufacturers. While the timber trading business is only a complementary part of our business, we believe it is important for us to secure reliable sources of timber for ourselves and authorized manufacturers. We began to acquire strategic upstream forest assets in Yunnan and Peru in 2009 to secure reliable sources of timber. Once we begin commercial logging and harvesting the timber, we expect the sales volume and revenues from our timber trading operation will decrease because we will rely less on outside sourcing of timber purchased from overseas timber dealers while increasingly relying on our own timber sources.

Financial Performance

During the Track Record Period, our revenues increased from RMB885.4 million in 2008 to RMB1,623.9 million in 2010, our profit from operations increased from RMB203.4 million in 2008 to RMB442.9 million in 2010, and our profit attributable to equity shareholders of the Company increased from RMB146.0 million in 2008 to RMB340.1 million in 2010, representing a CAGR of 35.4%, 47.6% and 52.6%, respectively.

STRENGTHS

The following strengths have enabled us to become a leading wood flooring brand in China:

Largest wood flooring brand, well positioned to strengthen our leading position in China's rapidly growing wood flooring market

We are the largest wood flooring brand in China in terms of market share⁽¹⁾ by retail sales value of branded wood flooring products. According to Frost & Sullivan, our "Nature" branded products accounted for 6.5% market share in terms of China's total retail sales value of branded wood flooring products in 2009. Our branded products consist of products manufactured at our own factories, and those manufactured by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own factories accounted for 60.5%, 66.7% and 67.3% of the total Wholesale Volume of our branded products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 37.7%, 31.4% and 30.3%, respectively. For branded products manufactured by our authorized manufacturers, we receive trademark and distribution network usage fees but do not generate sales revenue from branded products sold by authorized manufacturers. According to the Frost & Sullivan, in 2009, our branded products ranked second in laminated flooring with a 7.2% market share, first in multi-layered engineered flooring with a 5.3% market share and first in solid wood flooring with a 7.4% market share, in terms of retail sales value in China. See "— Our Branded Products". We were the only company to achieve a top two market share position across the three primary wood flooring product categories in China in 2009.

Note:

(1) The market share data includes retail sales value of branded products manufactured at our own factories and by authorized manufacturers from whom we receive trademark and distribution network usage fees.

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As the largest wood flooring brand in China and a leader across the primary wood flooring product categories, we are well positioned to strengthen our leading position in and benefit from China's rapidly growing wood flooring market. According to Frost & Sullivan, China's wood flooring industry is expected to experience long-term growth, driven by factors such as rising income, urbanization, increasing government support for housing in county-level cities, small towns and rural areas, increasing renovation activities and increasing market penetration of wood flooring products. According to Frost & Sullivan, the total annual retail sales value of China's wood flooring market grew at a CAGR of 14.2% from 2005 to 2009, and is expected to grow at a CAGR of 19.3% from 2009 to 2014, reaching RMB115.7 billion in 2014. In addition, the demand for certain products, such as laminated flooring, is growing rapidly in lower-tier cities and rural areas. According to Frost & Sullivan, the total annual retail sales value of the laminated flooring sector grew at a CAGR of 16.2% from 2005 to 2009, and is expected to grow at a CAGR of 26.8% from 2009 to 2014. We have significantly expanded our laminated flooring business during the Track Record Period and plan to continue this expansion as part of our growth strategy.

Industry-leading brand provides a significant competitive advantage

Our industry-leading brand is critical to our success in China's fragmented and highly competitive wood flooring industry. According to the World Brand Laboratory, our brand was the only flooring brand ranked among the top 100 most valuable brands in China in 2010. With its ten years of history, the "Nature" (大自然) brand has received numerous awards and recognitions, including:

- one of the first flooring brands recognized as "China's Top Brand" (中國名牌產品), by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in 2004 and again in 2007;
- receiving the "Asia Top 500 Brands Award" (亞洲品牌500強) by the Expert Committee Presidium of Asia Brand Assessment System in 2008;
- the only flooring company in China and one of five companies globally (the other four are Coca-Cola, Canon, SAIC Group (上汽集團) and Ogilvy & Mather) to receive a "Merit Conservation Supporter" recognition by the World Wildlife Fund (WWF) in 2008;
- the first wood flooring company in China to receive the "Zero Carbon Certificate" (零碳證書) from the Shanghai Zero-Carbon Information Technology Center in 2010; and
- receiving the "Chinese Brand of the Year 2010 and Ranking No. 1 in the Wood Flooring Category" (中國品牌年度大獎 No.1 (木地板行業)) from the World Brand Laboratory.

We have successfully positioned our brand with consumers to represent high product quality and product safety as well as health and environmental awareness, which also reflect our core values and form the focus of our brand management and product strategy. According to Frost & Sullivan, brand is the most important consideration for China's retail consumers in purchasing wood flooring products. As consumers in China become more sophisticated, placing more importance on product

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quality and safety, customer service, and the environmental impact of the products they purchase, we believe that our brand recognition and positioning among consumers will continue to differentiate us from our competitors.

Further, we believe our strong brand enables us to price our products at a premium to our competitors, increases customer loyalty and enhances our attractiveness to authorized manufacturers and distributors.

Nationwide, exclusive distribution network supported by strong sales and marketing capabilities

According to Frost & Sullivan, as of December 31, 2010, we managed the largest wood flooring product distribution network in China in terms of the number of retail stores. As of December 31, 2010, our nationwide distribution network consisted of over 2,900 Retail Stores managed by over 2,100 exclusive distributors, covering over 1,600 cities located in all of China's provinces and autonomous regions, including all 31 provincial capital cities and municipalities and over 260 district-level cities, as well as over 1,300 county-level cities. Most of the Retail Stores are strategically located in prime retail areas with significant traffic flow.

We closely manage and supervise our distributors and the Retail Stores they own and operate through our sales team, which consisted of approximately 370 full-time sales representatives as of December 31, 2010. Our distributors are carefully selected based upon their wood flooring retail experience, financial strength, management and logistics capabilities, industry reputation and local knowledge. We have imposed various requirements in areas such as exclusivity, brand protection, performance targets, pricing and after-sale services. In addition, we require all Retail Stores to adopt a uniform style of decoration and layout to convey a consistent brand image to consumers. Our sales managers regularly meet with our distributors and visit Retail Stores to supervise their operations and business performance, as well as provide our distributors with customer support. We also support our distributors by undertaking national and local marketing and promotion of our branded products in order to support their sales efforts and strengthen their loyalty. To maintain a dynamic and efficient distribution network, we have implemented various programs to reward outstanding distributors while assisting, motivating or replacing underperforming distributors. We also organize an annual conference for our distributors, which allows us to communicate our vision and growth strategy, sales tactics and latest product trends.

The number of our distributors and Retail Stores has grown rapidly. Our network of Retail Stores grew from over 1,200 stores as of December 31, 2008 to over 2,900 stores as of December 31, 2010, and the number of our distributors that manage these Retail Stores grew from over 1,000 as of December 31, 2008 to over 2,100 as of December 31, 2010.

We believe the extensive nationwide reach of our distribution network, our exclusive and stable relationships with our distributors, as well as our knowledge and experience managing and supporting our distributors, are difficult for our competitors to replicate and provide us with a significant competitive advantage.

Comprehensive branded product portfolio supported by strong product development capabilities

Our comprehensive branded product portfolios cover all major wood flooring product categories in the China market, including laminated flooring, engineered flooring, solid wood flooring,

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bamboo flooring and cork flooring. For each category, our branded products are offered at various price points catering to different target customer segments. As of December 31, 2010, our branded product portfolio consisted of over 1,000 wood flooring product SKUs. Our branded product portfolio is organized and sold under our various sub-brands, each with its own logo, style and price range to target specific customer segments based upon factors such as age, tastes, style preferences and budgets. For example, our “Nature · Woodsbür” (大自然 · 德獅堡) brand consists of higher-end branded products targeting more affluent customers, while our “Nature · No. 1 My Space” (大自然 · 第一空間) brand targets entry-level customers and customers who have lower budgets.

We also have a proven track record of strong product development and innovative product design, which we believe differentiates us from our competitors. During the Track Record Period, we introduced over 100 new product SKUs to the market each year, including developing and launching innovative new product types that are first to market. For example, we were one of the first companies in China to develop and launch eco flooring with 40 product SKUs in 2008. We also developed creative-style flooring with 200 product SKUs in 2009 and anion-zero-carbon flooring with 50 product SKUs in 2010.

Having a comprehensive branded product portfolio supported by strong product development capabilities allows us to target different customer segments and expand our customer base. In addition, a comprehensive branded product portfolio enables our distributors to adjust product offerings in response to local market conditions, as well as offer a “one-stop” shopping experience to customers. This flexibility reinforces the loyalty of our existing distributors and makes our distribution network attractive to potential new distributors. We believe that our comprehensive branded product portfolio and strong product development capabilities and experience are difficult to replicate and differentiate us from our competitors.

Effective use of authorized manufacturers enhances production flexibility and capital efficiency

Our branded products are manufactured through a combination of our own factories and exclusive authorized manufacturers. Utilizing authorized manufacturers to manufacture a substantial portion of our branded products provides us with numerous advantages. For example, shifting the manufacturing of solid wood flooring to authorized manufacturers enables us to significantly reduce capital expenditures for manufacturing expansion and exposure to inventory backlog and price fluctuations in procuring raw materials. In addition, this model allows us to focus on brand management and marketing, product development and portfolio management and distribution network management. As the market demand for our branded products continues to grow, our manufacturing model allows us to expand manufacturing capacity available to us and production of our branded products in a timely and efficient manner, which in turn enables us to grow our business rapidly and maintain our leading market position. We have been able to be highly selective, as well as timely, in selecting new authorized manufacturers. During the Track Record Period, we added six new authorized manufacturers. In addition, we added two new joint venture authorized manufacturers in January 2011 that commenced operation in April 2011.

Experienced and dedicated management team with extensive experience in the flooring industry

We have grown rapidly to become a leading wood flooring company in China under the leadership of our dedicated management team with strong industry knowledge and execution

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capabilities. In particular, Mr. Se Hok Pan, our chairman, has over 15 years' experience in China's wood flooring industry and occupies important positions in several influential industry associations, including vice president of the China Forestry Industry Association (中國林業產業協會). He was awarded the "Robert A. Mundell World Executive Awards (2004)" in 2004 by World Executive Weekly, recognized as the "China Forestry Industry Annual Person (2009)" (中國林業產業年度人物) by China National Forest Products Association (中國林產工業協會) and China Forestry Industry Association (中國林業產業協會), and named one of "The Most Influential Figures in the 15-Year Development of China's Flooring Industry (2010)" (中國地板行業輝煌十五年最具影響力人物獎) by the China National Forest Products Association (中國林產工業協會). The remaining members of our senior management team have an average of over ten years' experience in their respective fields.

STRATEGIES

We aim to strengthen our leading position in China's wood flooring market through the following strategies:

Continue to invest in and strengthen our brand

We intend to continue our brand management efforts in order to further enhance our brand recognition and overall brand image among consumers. In particular, we plan to:

- continue to utilize marketing and brand promotion campaigns. For example, we plan to continue to partner with well-known actors and advertise on China's mainstream television broadcasters, such as China Central Television (CCTV);
- continue to strengthen customer loyalty by enhancing our store experience through increased distributor training and oversight, and by offering a wide range of products and superior after-sale services;
- work with our distributors to open approximately 25 additional flagship stores in 2011 in provincial capital cities and other cities with strong economic growth potential, such as Taizhou of Jiangsu Province and Yuyao of Zhejiang Province. These flagship stores, which are owned and operated by our distributors and are generally bigger than other Retail Stores, will provide customers with a comprehensive selection of our branded products, and are intended to serve as a platform for us to display and demonstrate our newly developed products; and
- continue to allocate more resources toward marketing activities designed to promote our environmentally friendly image and which reflect our company values. These activities include placing advertisements, conducting brand ambassador activities and environmental campaigns, as well as supporting various environmental initiatives and participating in conservation and planting projects.

Continue to expand our distribution network and enhance our support for and management of our distributors

We aim to strengthen our leading market position by further expanding and deepening our distribution network and Retail Store presence. To this end, we intend to take the following actions:

- enhance our distribution network's presence and performance in our existing markets by increasing the number of the Retail Stores and assisting our distributors in increasing the sales through the Retail Stores by various means, including helping our distributors to adjust product offerings in response to local market conditions, strengthening promotional campaigns, such as the "Champion Alliance" (冠軍聯盟) program, and enhancing our customers' in-store experience;
- expand our distribution network to new markets in China. In particular, we plan to expand the Retail Stores in county-level cities and towns in China, where we plan to market our laminated flooring products which we believe are becoming increasingly popular in these areas;
- reinforce our close and stable relationships with our distributors through various initiatives, including introducing new training programs; and
- explore new distribution channels, such as exploring overseas markets and online sales through our Company's website and other influential websites in China. In this regard, we plan to establish an e-business center in our headquarters to take charge of our proposed online sales. In addition, we plan to engage third-party consultants to design and organize related advertising campaigns.

Continue to expand and diversify our branded product portfolio to capture market opportunities and meet consumer preferences

We intend to leverage our strong brand to expand our branded product offerings and take advantage of the growth of China's wood flooring market. For example, we intend to:

- further strengthen our product development capabilities to satisfy the evolving and diverse preferences and demands of consumers in China. To this end, we plan to expand our research and development team by recruiting additional experts with substantial wood flooring industry experience and knowledge; and
- focus on developing more laminated flooring products, while maintaining our strength in branded solid wood flooring and engineered flooring products.

Continue to optimize our resources, supply chain management and our manufacturing capabilities

Our business can greatly benefit from the effective management of the various components of our vertically integrated value chain, including product development, raw materials procurement, manufacturing, distribution network management, marketing and brand management. In this regard, we plan to:

- start commercial logging activities in the forests we acquired in Yunnan Province of China in the second half of 2011 and Loreto Province of Peru by the end of June 2011,

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upon receipt of relevant approvals and permits (which have already been obtained in respect of our forests in Peru);

- continue to expand our network of authorized manufacturers to manufacture an increasing proportion of our branded products across our portfolio, such as for laminated flooring while at the same time selectively expanding and upgrading certain of our own factories in order to maintain a strategic mix of manufacturing capacity; and
- upgrade our information system by implementing a third-party enterprise resource planning system to enhance the exchange of information both internally and with our distributors and suppliers.

Selectively expand into complementary product lines that can leverage our brand and network

Leveraging our strong brand and extensive distribution network, we may selectively work with third-party product partners to add additional products to our branded product portfolio that are complementary to our core business and which would expand our source of revenues, such as wood doors, wardrobes and cabinets. For wood doors, we plan to select companies with relevant manufacturing experience by the end of 2011 to manufacture new wood door products under a new “Nature” sub-brand. These products will then be sold to us, which we will then sell to our distributors. For wardrobes and cabinets, we plan to partner with new authorized manufacturers with relevant manufacturing experience by the end of 2011. Similar to our existing arrangements with authorized manufacturers manufacturing wood flooring products, our partners would manufacture new wardrobes and cabinets products and sell such products under a new “Nature” sub-brand to our distributors, for which we would charge trademark and distribution network usage fees.

Selectively acquire strategic forest assets and pursue other acquisition and investment opportunities

We intend to continue to pursue strategic acquisitions of assets, such as forest assets, and companies which would enhance or strengthen our business. In this regard, we plan to:

- continue to acquire strategic upstream forest assets, especially those that produce high-quality timber, in order to provide a source of high-quality timber for the manufacturing of our branded products; and
- acquire products or brands that are complementary to our existing product portfolio and business.

OUR BRANDS





Our brands play a vital role in our success. According to Frost & Sullivan, brand is the most important consideration for China’s retail consumers in purchasing wood flooring products. Therefore, a successful wood flooring brand drives end market consumer demand. It is also a key factor to retain and attract distributors in China’s fragmented and competitive wood flooring industry. In addition, a

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successful brand is important for us to retain and attract authorized manufacturers from whom we charge trademark and distribution network usage fees. See “— Manufacturing — Authorized Manufacturing Network.”

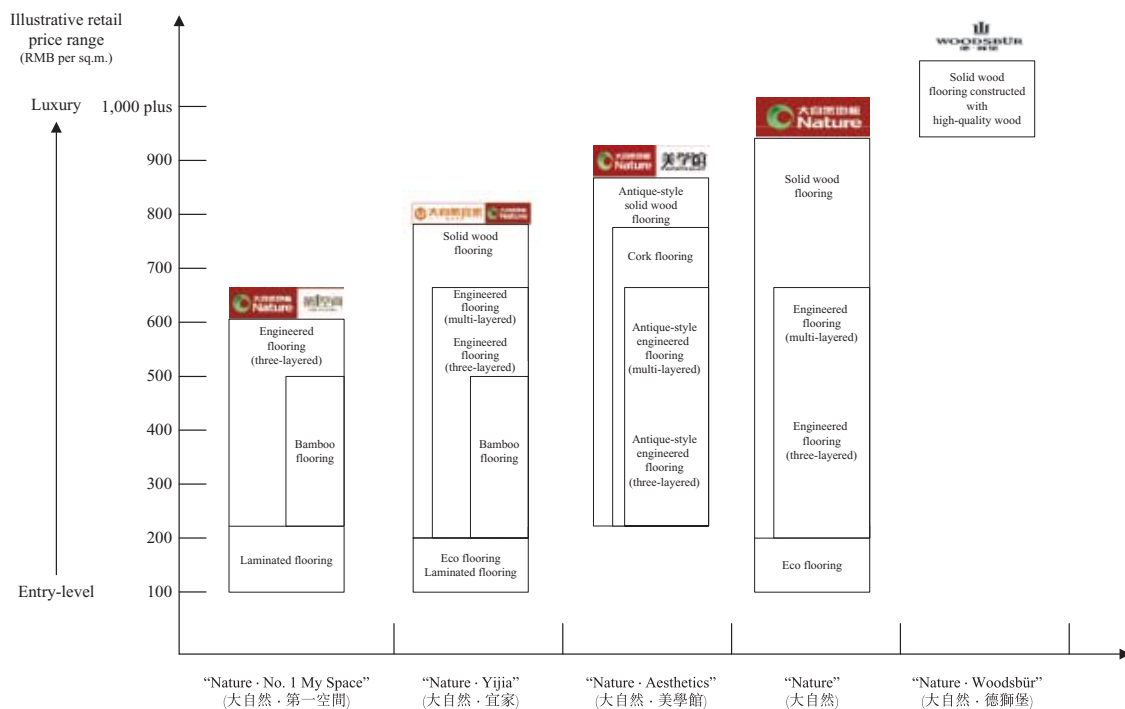
“Nature” (大自然)  is our flagship brand. Launched in 2001, it has been successfully positioned with consumers to represent high product quality and product safety as well as health and environmental awareness, which also reflect our core values and form the focus of our brand management and product strategy. Our market positioning for “Nature” (大自然) brand is geared towards a wide range of customer segments with different tastes, style preferences and budgets. As of December 31, 2010, we and authorized manufacturers offered over 350 product SKUs of solid wood flooring, engineered flooring and laminated flooring under our flagship “Nature” (大自然) brand.

Under our “Nature” (大自然) brand, we have launched four sub-brands catering to the diverse needs of different customer segments:

- “*Nature · Woodsbür*” (大自然 · 德獅堡) , formerly known as Woodsbür (德獅堡), is our high-end sub-brand established in 2007, featuring solid wood flooring products manufactured by authorized manufacturers with high-quality wood from around the world. Our market positioning for this brand is geared towards affluent customers including those looking for investment pieces. As of December 31, 2010, over ten product SKUs of solid wood flooring under this sub-brand were offered;
- “*Nature · No. 1 My Space*” (大自然 · 第一空間)  was established in 2007, inspired by increasing consumer preference for modern simplicity and fashion. Our market positioning for this brand is geared towards entry-level customers and customers who have lower budgets. As of December 31, 2010, over 270 product SKUs of laminated flooring, engineered flooring and bamboo flooring under this sub-brand were offered;
- “*Nature · Aesthetics*” (大自然 · 美學館)  was established in 2008, featuring creative and antique-style products focused on artistic perspective and core aesthetic value. Our market positioning for this brand is geared towards customers with more personal and individual tastes in flooring. As of December 31, 2010, over 270 product SKUs of solid wood flooring, engineered flooring and cork flooring under this sub-brand were offered; and
- “*Nature · Yijia*” (大自然 · 宜家)  was established primarily in line with the development of our non-traditional sales channels such as home furnishing supermarkets in 2007. Our market positioning for this brand is geared towards young customers and customers of home furnishing supermarkets. As of December 31, 2010, over 75 product SKUs of solid wood flooring, engineered flooring, laminated flooring and bamboo flooring under this sub-brand were offered.

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The following table illustrates, as of December 31, 2010, the diverse market segmentation of our brand portfolio across the primary wood flooring categories in the China market:



Note: Prices are for illustrative purposes only.

With its ten years of history, "Nature" (大自然) brand has become China's leading wood flooring brand, as evidenced by numerous awards and recognitions it and our company have received, including:

- one of the first flooring brands recognized as "China's Top Brand" (中國名牌產品), by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in 2004 and again in 2007;
- receiving the "Asia Top 500 Brands Award" (亞洲品牌500強), by the Expert Committee Presidium of Asia Brand Assessment System in 2008;
- the only flooring company in China and one of five companies globally (the other four are Coca-Cola, Canon, SAIC Group (上汽集團) and Ogilvy & Mather) to receive a "Merit Conservation Supporter" recognition by the World Wildlife Fund (WWF) in 2008;
- the first wood flooring company in China to receive the "Zero Carbon Certificate" (零碳證書) from the Shanghai Zero-Carbon Information Technology Center in 2010; and
- receiving the "Chinese Brand of the Year 2010 and Ranking No. 1 in the Wood Flooring Category" (中國品牌年度大獎 No.1 (木地板行業)) from the World Brand Laboratory.

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As consumers in China become more sophisticated, placing more importance on product quality and safety, customer service, and the environmental impact of the products they purchase, we believe that our brand recognition and positioning among consumers will continue to differentiate us from our competitors.

OUR BRANDED PRODUCTS

Our branded products consist both of products manufactured at our own factories and those manufactured by authorized manufacturers. Authorized manufacturers are independent third parties (other than two joint venture authorized manufacturers added in January 2011 to manufacture our branded laminated flooring products). Authorized manufacturers manufacture only our branded products and must sell these products exclusively to distributors in our distribution network directly, for which we charge trademark and distribution network usage fees. See “— Manufacturing — Authorized Manufacturing Network.”

We and authorized manufacturers offer a comprehensive and growing branded product portfolio, consisting of over 1,000 product SKUs as of December 31, 2010 across all major wood flooring product categories in the China market — laminated flooring, engineered flooring, solid wood flooring, bamboo flooring and cork flooring. Each product category contains products with various features, lengths, widths and heights. Our various branded products target diverse customer segments, which range from affluent to entry-level customers, from young to elderly customers, and from customers with personal and artistic tastes to customers with mainstream tastes. As our products are targeted at customer groups with different purchasing power, there is no competition between our different product categories. Our comprehensive product portfolio enables us and authorized manufacturers to provide our distributors with a broad selection of products from which they can order based on the different consumer preferences and requirements of their respective localities.

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Set forth below is the Wholesale Volume of each product category of our branded products for the periods indicated:

	Year Ended December 31,					
	2008		2009		2010	
	Wholesale Volume ⁽¹⁾	% of Total Volume ⁽²⁾	Wholesale Volume ⁽¹⁾	% of Total Volume ⁽²⁾	Wholesale Volume ⁽¹⁾	% of Total Volume ⁽²⁾
	(sq.m. in thousands, except percentages) ⁽³⁾					
<i>Products manufactured at our own factories</i> ⁽⁴⁾						
Laminated flooring	6,967	54.2%	10,561	62.6%	13,915	60.8%
Engineered flooring	812	6.3	687	4.1	1,483	6.5
Subtotal	<u>7,779</u>	<u>60.5</u>	<u>11,248</u>	<u>66.7</u>	<u>15,398</u>	<u>67.3</u>
<i>Products manufactured by authorized manufacturers</i> ⁽⁴⁾						
Engineered flooring	1,096	8.5	1,609	9.5	2,333	10.2
Solid wood flooring	3,753	29.2	3,691	21.9	4,604	20.1
Subtotal	<u>4,849</u>	<u>37.7</u>	<u>5,300</u>	<u>31.4</u>	<u>6,937</u>	<u>30.3</u>
<i>Others</i>						
Bamboo flooring, cork flooring and spare parts	233	1.8	314	1.9	541	2.4
Total	<u>12,861</u>	<u>100.0%</u>	<u>16,862</u>	<u>100.0%</u>	<u>22,876</u>	<u>100.0%</u>

Notes:

- (1) Wholesale Volume means the volume of our branded flooring products that we and/or authorized manufacturers, as applicable, sell to our exclusive distributors, property development companies and home furnishing supermarkets in China, excluding an immaterial portion of our branded products sold overseas.
- (2) It represents the percentage of the total Wholesale Volume of our branded products manufactured at our own factories and by authorized manufacturers combined.
- (3) Flooring products are sold by square meters. There is no uniform size for the finished product of each product category as each product category may vary in length, width and height.
- (4) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and a majority of branded engineered flooring were manufactured by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1%, respectively.

Set forth below is an introduction of each of our primary flooring categories.

Laminated flooring manufactured at our own factories

During the Track Record Period, all of our branded laminated flooring products were manufactured at our own factories. The two joint venture authorized manufacturers added in January 2011 to manufacture our branded laminated flooring commenced operations in April 2011. See “— Manufacturing — Authorized Manufacturing Network.”

Laminated floorings consist of multiple layers that include a moisture-proof foundation layer, a layer of composite fiberboard, a design layer with a high-resolution replication photo of wood or a

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variety of other motifs and a wear-resistant, laminated surface layer. Laminated flooring can be designed in a wide variety of styles and textures and its construction enables the product to also be resistant to humidity and temperature changes. The drawing below illustrates the structure of a laminated flooring:



As composite fiberboard, which consists primarily of wood chips and glue, is less expensive than solid wood and plywood, laminated flooring is generally more affordable than either solid wood flooring or engineered flooring, and is priced at a lower price point and marketed towards mass market customers. During the Track Record Period, the retail price of our laminated flooring ranged between RMB100-RMB220 per sq.m.

As of December 31, 2010, we offered 25 series of laminated flooring with over 340 product SKUs, including the “Chaoyue” (超越) series, the “Gufeng” (古風) series and the “Tangyun” (唐韻) series, which vary in floorboard thickness and length, brightness, surface layer color and texture, as well as the technologies employed in the manufacturing. The products in the Chaoyue series, which are available in extra long and wide dimensions, feature moisture proof qualities and a click-lock mechanism for easy installation. The Gufeng series is our premium laminated flooring series having features which we believe incorporate some of the most advanced production technologies in the industry, enabling the flooring to release negative ions to clean the air, provide better moisture proof qualities and have a glossy and bright surface. Products in the Gufeng series are manufactured with environmentally-friendly, high-density fiberboards. Products in the Tangyun series feature a bold and unrestrained wooden texture, as well as a surface with an undulating, wave-like appearance resulting from a hand engraving process. The Wholesale Volume of our laminated flooring products was 7.0 million sq.m., 10.6 million sq.m. and 13.9 million sq.m., respectively, representing a CAGR of 41.3% from 2008 to 2010, which accounted for 54.2%, 62.6% and 60.8% of the total Wholesale Volume of our branded products.

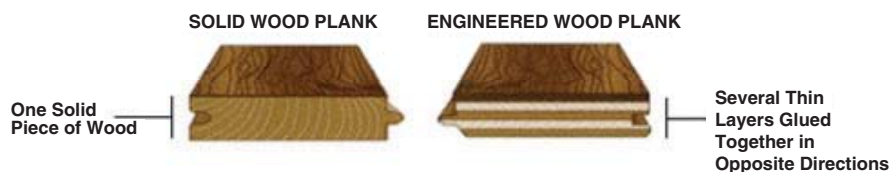
Engineered flooring manufactured our own factories and by authorized manufacturers

During the Track Record Period, our branded engineered flooring products were manufactured through a combination of our own factories and authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1% of the total Wholesale Volume of our branded engineered flooring products, respectively. Authorized manufacturers are independent third parties (other than the two joint venture authorized manufacturers added in January 2011 to manufacture our branded laminated flooring products). Authorized manufacturers manufacture only our branded products and must sell these products exclusively to distributors in our distribution network, for which

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we charge trademark and distribution network usage fees and we do not generate revenue from sales of those branded products by authorized manufacturers. See “— Manufacturing — Authorized Manufacturing Network.”

Engineered flooring retains the natural wood feel of solid wood flooring while offering more versatility due to its “cross-ply construction.” Rather than using a single solid piece of wood, several pieces of wood are stacked on top of each other in opposite directions, resulting in a more dimensionally stable floor that is also less sensitive to changes in temperature and humidity than solid wood flooring. The drawing below illustrates the structure of a engineered wood plank as compared to a solid wood plank:



Engineered flooring is a medium to high-end product that is generally more affordable than solid wood flooring because it is manufactured with a combination of a thinner solid wood layer and plywood. The retail price of our branded engineered flooring ranges between RMB200-RMB650 per sq.m. depending on the rarity of wood and the number of layers of plywood.

Depending on the number of layers of plywood used in the manufacturing process, engineered flooring is divided into two types, multi-layered engineered flooring and three-layered engineered flooring, both of which we or authorized manufacturers produce. Multi-layered engineered flooring is generally more popular than three-layered engineered flooring in China. According to the Frost & Sullivan Report, multi-layered engineered flooring accounted for 88.0% of China’s engineered flooring sales volume in 2009 and is expected to remain the largest share of the engineered flooring market during the forecast period. See “Industry Overview — Key Segments of the Wood Flooring Market — Engineered Flooring.” The majority of the Wholesale Volume of our branded engineered flooring consists of multi-layered engineered flooring.

As of December 31, 2010, we and authorized manufacturers offered seven series of our branded engineered flooring with approximately 200 product SKUs, including the 0.6 mm series (平面0.6毫米), the 2.0 mm series (平面2.0毫米) and the “wave surface” (凹凸面) series, which come in a variety of designs, colors and specifications. The products in the 0.6 mm series are manufactured with a 0.6 millimeter-thick veneer made of a species of wood. The products in the 2.0 mm series are manufactured with a 2.0 millimeter-thick veneer made of a species of wood, and feature a glossy and bright surface. The products in the wave surface series feature a hand engraved surface with a bold, vintage style and a wave-like appearance and texture, highlighted by contrasting colors.

In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured our own factories and by authorized manufacturers in aggregate was approximately 1.9 million sq.m., 2.3 million sq.m. and 3.8 million sq.m., respectively, representing a CAGR of 41.4% from 2008 to 2010, which accounts for 14.8%, 13.6% and 16.7% of the total Wholesale Volume of our branded products. Among these, the Wholesale Volume of our branded engineered flooring products

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manufactured by authorized manufacturers was 1.1 million sq.m., 1.6 million sq.m. and 2.3 million sq.m., respectively, which accounts for 8.5%, 9.5% and 10.2% of the total Wholesale Volume of our branded products. The Wholesale Volume of our branded engineered flooring products manufactured at our own factories was 0.8 million sq.m., 0.7 million sq.m. and 1.5 million sq.m., respectively, which accounts for 6.3%, 4.1% and 6.5% of the total Wholesale Volume of our branded products.

Solid wood flooring manufactured by authorized manufacturers

During the Track Record Period, all of our branded solid wood flooring products were manufactured by authorized manufacturers. Authorized manufacturers are independent third parties (other than the two joint venture authorized manufacturers added in January 2011 to manufacture our branded laminated flooring products). Authorized manufacturers manufacture only our branded products and must sell these products exclusively to distributors in our distribution network directly, for which we charge trademark and distribution network usage fees and we do not generate revenue from sales of those branded products by authorized manufacturers. See “— Manufacturing — Authorized Manufacturing Network.”

Solid wood flooring is manufactured with a single plank of high-quality solid wood, generally without the use of glue, which is then dried, polished and coated to produce a natural flooring product that exhibits the varying colors, textures and fragrance of the bare wood. The product can be further hand-engraved to produce a surface with varying desired patterns. Due to the use of a solid piece of natural wood, solid wood flooring generally has a higher price point and is marketed towards more affluent customers. Its retail price is, on average, the highest among our branded flooring types. During the Track Record Period, its price ranged between RMB200-RMB2,000 per sq.m. depending on the rarity of the wood.

As of December 31, 2010, authorized manufacturers offered over 350 product SKUs of our branded solid wood flooring, which were manufactured with over 100 different species of wood from around the world, varying in rarity, appearance, texture, fragrance and weight. These woods mainly come from six different regions and countries: South America, Southeast Asia, Africa, China, North America, and Russia.

In 2008, 2009 and 2010, the Wholesale Volume of our branded solid wood flooring products, all of which were manufactured by authorized manufacturers, was approximately 3.8 million sq.m., 3.7 million sq.m. and 4.6 million sq.m., respectively, representing a CAGR of 10.8% from 2008 to 2010, which accounted for 29.2%, 21.9% and 20.1% of the total Wholesale Volume of our branded products.

Other floorings

Our branded product portfolio also encompasses a very small portion of bamboo flooring and cork flooring, which are not manufactured by us or authorized manufacturers. Instead, they are produced and labeled with our trademarks by third-party manufacturers which are sold to us. We then sell these products to our distributors.

We conduct physical inspection of the bamboo and cork floorings manufactured by third-party manufacturers at their factories before these floorings are delivered to us. If defects are subsequently

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found in such products, we will return such products to the relevant third-party manufacturers for replacement or refund at their own costs. During the Track Record Period, none of the bamboo and cork floorings supplied by third-party manufacturers was returned to them. Our product liability insurance extends to the floorings manufactured by these third-party manufacturers.

Bamboo flooring is produced with treated bamboo. Bamboo flooring is popular among customers who want products that retain the natural feel of the material as well as those who seek an alternative to wood flooring. During the Track Record Period, the retail price of our branded bamboo flooring ranged between RMB180-RMB500 per sq.m. As of December 31, 2010, we offered over 60 product SKUs of bamboo flooring.

Cork flooring is a wood-based flooring made from the bark of cork oak trees. Due to its sound-absorbing and sound-proof qualities, cork flooring is popular in commercial workplaces such as studios, cinemas and television stations. The retail price of our branded cork flooring ranges between RMB250-RMB800 per sq.m. As of December 31, 2010, we offered over ten product SKUs of cork flooring.

PRODUCT DEVELOPMENT

Product development is critical to our continued success in the wood flooring market. Our research efforts focus on advancing our technology in manufacturing processes and developing new products. We seek to continuously improve the quality, function and design of our products in order to best serve different customer segments and requirements. We believe that our commitment to product development will further enhance our competitiveness by allowing us to provide a broader range of products catering to diverse needs of different customers.

We have been successful in continuously designing and launching new products in response to the changing consumer preferences. During the Track Record Period, we introduced over 100 new product SKUs to the market each year, including developing and launching innovative new product types. For example, we were one of the first companies to develop and launch eco flooring with 40 product SKUs in 2008. We also developed creative-style flooring with 200 product SKUs in 2009 and anion-zero-carbon flooring with 50 product SKUs in 2010. Eco flooring is a type of laminated flooring manufactured with only one layer of fiberboard which is painted with a wide variety of available designs, with the aim of conserving resources and energy as well as reducing formaldehyde emissions from the flooring products. Since its introduction, eco flooring has become a popular option among those customers who may focus on the safety and the environmental impact of their products. During the Track Record Period, the retail price of our eco flooring ranged between RMB100-RMB220 per sq.m. Creative-style flooring introduces the element of individual tastes to flooring by allowing customers to specify the pattern and design for the surface of their various types of flooring products. During the Track Record Period, the retail price of our creative-style flooring ranged between RMB300-RMB400 per sq.m. Anion-zero-carbon flooring features a technology that enables the flooring to release negative ions to clean the air, as well as a production management system in which the green house gas emissions created during its production are reduced through the purchase of carbon credits, or through other emissions reduction activities such as tree planting or participation in energy saving initiatives. All of our anion-zero-carbon flooring is laminated flooring manufactured by

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Zhongshan Nature. We engaged an independent third party, Shanghai Lingtan Construction Technology Company Limited (上海翎碳建築科技有限公司), to monitor and calculate the green house emissions created by Zhongshan Nature during its production of laminated flooring products. In April 2010, we purchased carbon credits in the amount of 40,000 tons from an independent third party at the consideration of approximately US\$280,000. Our operation will not be materially and adversely affected without the purchase of carbon credits. We also actively participated in tree planting and energy saving initiatives. See “Marketing and Promotions” and “Environmental and Safety Matters — Environmental Initiatives.” In May 2010, we obtained the “Zero Carbon Certificate” from the Shanghai Zero-Carbon Information Technology Center, which certifies that the green house gas emission from the production of a certain amount of laminated flooring products by Zhongshan Nature had been reduced. The retail price of our anion-zero-carbon flooring ranges between RMB120-RMB200 per sq.m.

We have a highly qualified product development team and we continually seek to hire talented researchers and industry experts to join our team. As of December 31, 2010, we had over 54 full-time employees dedicated to product development who had developed over 40 patented technologies already featured in our products. In addition, we are currently in the process of applying for the registration of over 25 patents in China. Not all of our 43 patented technologies and 31 patents-pending technologies are featured in our branded product portfolio covering the following five wood flooring categories in China, namely laminated flooring, engineered flooring, solid wood flooring, bamboo flooring and cork flooring. Our patented or patent-pending technologies are being applied to our branded laminated flooring, engineered flooring and solid wood flooring. The bamboo flooring and cork flooring manufactured by third-party manufacturers do not utilize our patented or patents-pending technologies. Our product development team, led by our chairman, Mr. Se Hok Pan, who has over 15 years’ experience in China’s wood flooring industry, includes the managers of each of our factories. Approximately 15 employees of our product development team were engineers certified by the relevant local authorities. Our total expenditures for product development were approximately RMB1.2 million, RMB3.5 million and RMB5.1 million in 2008, 2009 and 2010, respectively.

We also have an industry-leading laboratory to examine the quality of our branded products and research new wood flooring technologies. In 2008, our laboratory received the China National Accreditation Service for Conformity Assessment (CNAS) certificate.

SALES AND DISTRIBUTION

We have established an extensive distribution network in China which is closely managed and supported by our sales team. Our branded products, which are manufactured by our own factories and authorized manufacturers, are primarily sold to our exclusive distributors on a wholesale basis, who in turn primarily sell these products to retail consumers through the Retail Stores they operate. A small portion of our products are sold directly to property developers or home furnishing supermarkets such as B&Q (百安居) and Orient Home (東方家園) in China or sold overseas. In 2008, 2009 and 2010, 93.6%, 91.9% and 89.4% of the Wholesale Volume of our branded products were sold to our distributors.

Our Nationwide Distribution Network

As of December 31, 2010, our nationwide distribution network consisted of over 2,900 Retail Stores managed by over 2,100 exclusive distributors, covering over 1,600 cities located in all of

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China’s provinces and autonomous regions, including all 31 provincial capital cities and municipalities and over 260 district-level cities, as well as over 1,300 county-level cities. We do not own and operate any Retail Stores but instead rely on our exclusive distributors.

The following diagram illustrates the geographic distribution of the Retail Stores in China as of December 31, 2010:

Geographic Distribution of the Retail Stores



The following table illustrates the movement of our distributors and Retail Stores during the Track Record Period:

	Number of Distributors			Number of Retail Stores		
	Addition	Termination ⁽¹⁾	Year-end	Addition	Termination ⁽¹⁾	Year-end
Year ended December 31, 2008	305	156	1,107	402	168	1,266
Year ended December 31, 2009	352	80	1,379	782	112	1,936
Year ended December 31, 2010	762	34	2,107	1,093	128	2,901

Note:

(1) Termination is primarily due to the failure of the relevant distributors to meet their purchase targets.

The Retail Stores are operated under our flagship brand “Nature” (大自然), sub-brands “Nature • No. 1 My Space” (大自然 • 第一空間) or “Nature • Aesthetics” (大自然 • 美學館). Products under “Nature • Woodsbür” (大自然 • 德獅堡) are generally sold in “Nature” (大自然) Retail Stores, and products under

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“Nature · Yijia” (大自然 · 宜家) are sold in home furnishing supermarkets. “Nature” (大自然) Retail Stores primarily sell our branded solid wood flooring, engineered flooring and eco flooring products, targeting a wide range of customer segments with different tastes, style preferences and budgets. “Nature · Aesthetics” (大自然 · 美學館) Retail Stores are generally spacious and primarily sell our branded antique-style solid wood flooring, engineered flooring and laminated flooring products, targeting customers with more personal and individual tastes in flooring. “Nature · No. 1 My Space” (大自然 · 第一空間) Retail Stores have relatively smaller areas and primarily offer our laminated flooring products, targeting entry-level customers and customers who have lower budgets. As part of our strategy, we plan to work with our distributors to open more “Nature · No. 1 My Space” (大自然 · 第一空間) Retail Stores in county-level cities and small towns to capitalize on China’s urbanization process and increasing government support for housing in these areas. The following table sets forth a breakdown of the Retail Stores:

	As of December 31,		
	2008	2009	2010
Number of Retail Stores			
“Nature” (大自然)	726	1,167	1,853
“Nature · No. 1 My Space” (大自然 · 第一空間)	534	744	958
“Nature · Aesthetics” (大自然 · 美學館)	6	25	90
Total	1,266	1,936	2,901

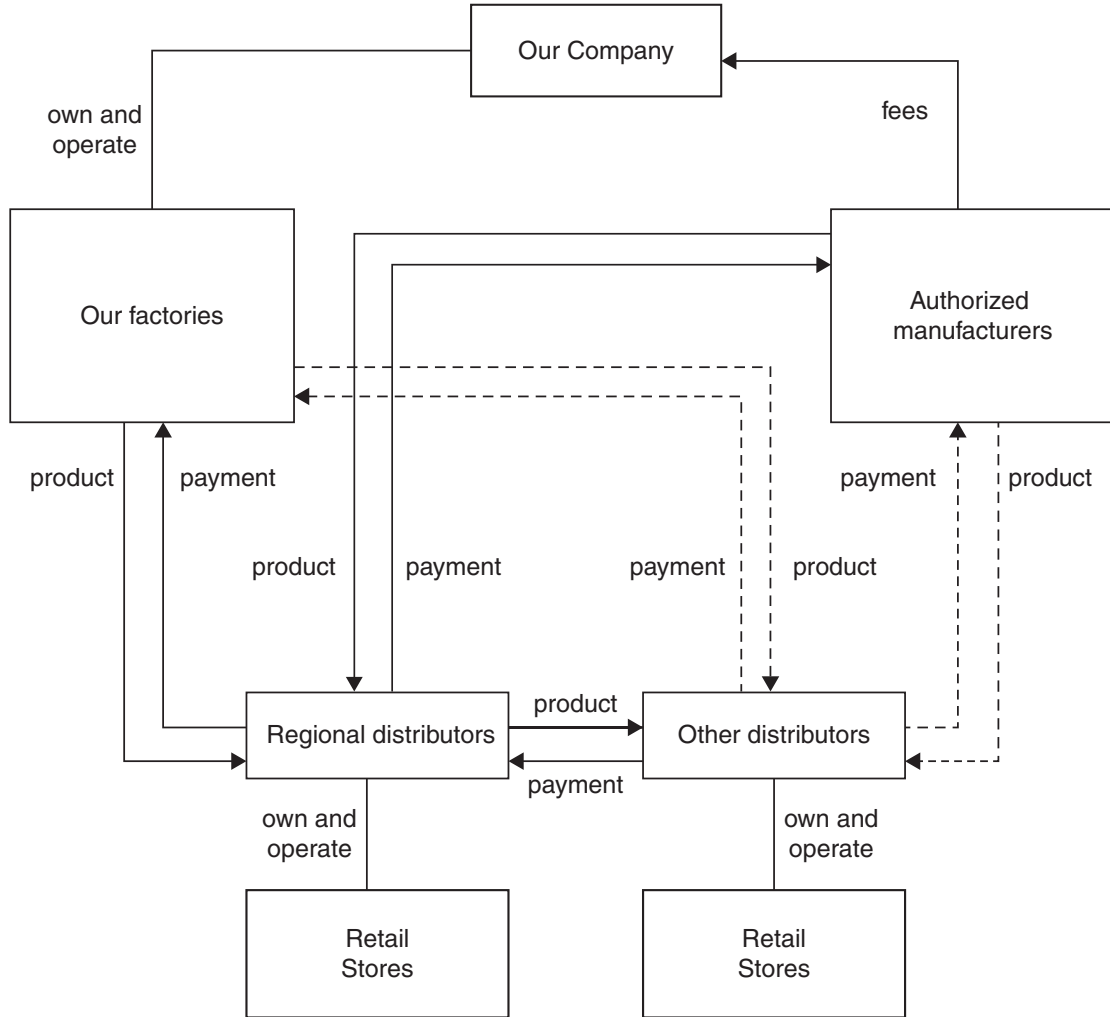
Our Distributors

We carefully assess a broad range of factors in selecting our distributors, including wood flooring retail experience, financial strength, management and logistics capabilities, industry reputation and local knowledge. As of the Latest Practicable Date, all of our distributors were independent third parties.

Our relationships with our distributors vary in length, with most distributors having been our distributors for the entire Track Record Period. We generally enter into a standard one-year distribution agreement with each of our distributors, renewable at expiration by mutual agreement. We also issue a distributor certificate to each of our distributors to evidence their qualification as our distributors. As of December 31, 2010, we issued distributor certificates to 2,107 distributors and entered into distribution agreements with most of them. The distributors with whom we did not enter into distribution agreements as of December 31, 2010 were those whose performances were still under our evaluation.

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The chart below illustrates our relationship with our distributors:



Both regional distributors and other distributors are entitled to purchase our branded products from us or authorized manufacturers pursuant to the distribution agreement and/or the distributor certificate. Regional distributors purchased all of our branded products from us or authorized manufacturers during the Track Record Period, and are the top 60 distributors in terms of Wholesale Volume. Most of other distributors, however, purchased all of our branded products from regional distributors located in their close proximity during the Track Record Period to facilitate the logistical efficiency and reduce the shipping cost. Certain other distributors purchased a small portion of our branded products directly from us or authorized manufacturers during the Track Record Period due to the inventory shortage of the regional distributors from whom they sourced our branded products. In 2008, 2009 and 2010, the Wholesale Volume of our branded products we and authorized manufacturers sold to regional distributors accounted for approximately 90.8%, 89.6% and 90.5% of the Wholesale Volume of our branded products we and authorized manufacturers sold to all of our distributors. During the Track Record Period, we experienced a consistent increase in revenue as a result of growth in all our business segments. The increase in consumer demand for our branded

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flooring products reflected the overall growth of our business, the expansion of our distribution network and the enhancement of our brand recognition. The increase was not the result of an accumulation of inventory at our distributors' level. In view of their payment terms with us as well as our authorized manufacturers and our no refund or exchange of goods policy (except of defective or damaged goods), distributors who accumulate inventories will run their own risk of suffering cash flow problems or incurring losses due to inventory becoming obsolete. Furthermore, the Wholesale Volume of our branded products sold to our distributors reflects our overall business growth as the regular and relatively stable purchase requests we receive from our distributors reflects the sales of our distributors and their sales targets, which indicate that our distributors have maintained a healthy inventory turnover instead of accumulating stock.

Our distributors are entitled to distribute, promote and sell our branded products within their designated areas on an exclusive basis. The designated area for each distributor varies from several provinces to several cities, depending on factors such as distributors' relevant experience and scale of their business. Distributors are not permitted to distribute our products outside their designated area, nor can they distribute other brands of wood flooring products. In general, we set performance targets for our distributors to purchase a minimum amount of our branded products on a yearly and monthly basis and to open and operate a minimum number of Retail Stores to sell these products. The performance targets for our distributors are set based on the consumer demand in their locations, the scale of Retail Stores they operate and their historical sales record. We do not make incentive payments to our distributors for meeting performance targets.

We set uniform wholesale prices of products that our own factories sell to our distributors. Our sales team then works closely with our distributors to set the suggested retail prices, taking into consideration factors such as the retail prices of competitive products and local economic conditions. However, our distributors have the discretion to determine the final retail prices of our branded products in response to local market conditions or in connection with certain local product promotions. We generally grant our distributors who purchase products from us a payment term of up to three months, depending on the factors such as their financial strength, relationship with us and the payable amount. For distributors who pay us upfront before delivery, we offer them a slight price discount.

We generally permit our distributors to return defective products to us if they submit to us an inspection report setting forth details of the defective products within three days after delivery. In 2008, 2009 and 2010, products returned by our distributors amounted to RMB3.6 million, RMB2.6 million and RMB5.3 million, respectively.

Further, we require our distributors to undertake measures to protect our brand. Distributors are not allowed to use our brand for any purpose other than for distributing our products. They are required to promptly notify us upon becoming aware of any infringement of our trademark rights. In addition, distributors are required to make a security deposit, from which we are entitled to directly deduct our losses in connection with their breach of our policies, their failure to protect our brand, or any liability claims from customers. The amount of the security deposit we require from a particular distributor depends on the maturity of the market in which it operates, and generally ranges from RMB5,000 to RMB130,000. We require higher deposits from distributors operating in more mature markets, because the greater number of transactions and customers in those markets usually present greater risk for

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customer liability claims or breaches of our policies. We return the security deposit upon the conclusion or termination of our relationship with the distributors, so long as there are no outstanding liability claims.

Our distributors are responsible for establishing and managing their own after-sale service teams, which we provide with the necessary training. As part of our “Golden Housemaid” (金保姆) program, we require our distributors to provide, at their own expense, retail consumers with delivery, installation, professional maintenance and consulting services. We formulated a “Golden Housemaid” after-sale service manual, which provides detailed requirements relating to, among others, (i) the qualification of installation technicians and the working procedures for them to follow; (ii) provision of information relating to maintenance of flooring products to customers; and (iii) the procedures of handling customer complaints. In particular, our distributors are required to promptly handle customer complaints by arranging an on-site inspection within 48 hours after receiving a customer complaint and submitting a report to us describing the problems in detail. We then decide the responsible party for the problem based on the report and if necessary, send our own local sales representative for an on-site visit. We or authorized manufacturers are generally responsible for problems related to product quality defects, while our distributors are responsible for installation defects. After the responsible party provides the relevant solution, our distributors need to submit a confirmation to us signed by the client, confirming that the problem has been resolved.

Pursuant to our standard distribution agreement, we are entitled to unilaterally terminate the agreement, if, among other things, our distributors (i) sell our products outside of their designated geographic regions; (ii) fail to meet their purchase targets for three consecutive months; or (iii) materially damage our reputation or brand image which results in a significant delay in our business development. If any of these circumstances occurs, we may also terminate the distributor certificate issued to the relevant distributors, which means we will not, and will arrange authorized manufacturers and regional distributors (if applicable) not to, sell our branded products to these distributors.

Management of Our Distributors

Our distribution network is closely managed and supported by our sales team, which consisted of approximately 370 full-time sales representatives as of December 31, 2010. Our sales managers monitor our distributors and Retail Stores to ensure consistency and quality in our sales promotion and brand-building activities. They regularly visit our distributors and Retail Stores and obtain information on movement of merchandise and customer feedback on our products. They also inspect the quality of services that our distributors and Retail Stores provide and check to ensure compliance with our contractual requirements and policies. Our sales representatives also check to ensure that a store’s layout is consistent with our design, the store meets our requirements for client reception and customers’ claims are handled promptly and properly. We also randomly contact retail consumers for feedback on the services provided by our distributors and Retail Stores.

When opening a new Retail Store, our distributors conduct research on the market potential of the proposed store site. Each new Retail Store must be approved by our sales department. In determining whether to approve the opening of a new Retail Store, we consider the store’s location, its market opportunity and its estimated sales. Our sales department may also conduct independent

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research to confirm the market potential of certain proposed stores. Most of the Retail Stores are strategically located in prime retail areas with significant traffic flow.

To convey a consistent image to consumers, we require all Retail Stores to adopt a uniform style of decoration and layout. We design the decor of all stores or approve the design made by our distributors. To incentivize distributors to follow uniform decoration, we provide reimbursement to our distributors who decorate their stores pursuant to approved designs. We have formulated detailed requirements with respect to how to enhance the in-store experience of consumers, such as how to describe a specific product and how to best respond to their inquiries.

Set forth below are samples of Retail Store layout and decoration.



We provide our distributors and store managers with a variety of training courses and programs covering a broad range of areas, such as professional knowledge about wood flooring products, management capabilities and marketing strategies and skills. We also invite all of our distributors to attend an annual conference where we communicate to our distributors our vision and growth strategy, sales tactics and latest product trends. Lessons and experiences relating to the sale of our branded products are also shared among our distributors. Furthermore, we support our distributors by engaging in national and local marketing and promotion of our products in order to support their sales efforts and strengthen their loyalty to us.

We believe that all of these efforts have strengthened the loyalty of our distributors and have consequently enabled us to build a closer and stronger relationship with them.

MARKETING AND PROMOTIONS

Marketing and promotional activities are critical to our business, and have significantly contributed to our brand recognition and sales. Our principal marketing and promotional activities include:

- *Advertisement.* We hire third-party advertising consultants to design and organize advertising campaigns to convey our brand image and product information to a wide base of customers. We primarily focus on advertisements in China's mainstream television broadcasts, such as China Central Television (CCTV). Our advertisement featuring one of China's most respected actors, Mr. Daoming Chen (陳道明), and the slogan "I Love Nature, Global Premium Life" (我愛大自然·全球品味生活) is widely seen in China. Our advertisements are also placed in magazines, newspapers, on airport kiosks, outdoor billboards and China's popular web sites.
- *Sponsorship.* We sponsor public events to promote our brand. In 2008, we sponsored the Chinese National Cycling Team for the Olympic Games held in Beijing. In 2010, we organized the "Zero Carbon Home Design Competition" (零碳家居設計大賽) to advocate the idea of zero carbon life, which covered 11 cities of China and attracted thousands of young promising designers, and we also became the only designated flooring product provider for the Shanghai World Expo's London Zero Energy Development Case Pavilion. We have also sponsored television programs with CCTV, including the "Same Song: Shunde Stand" (同一首歌:走進順德) in 2007 and the "Little Creative Painter Competition" (創意小畫家比賽) in 2009.
- *Community service.* We actively participate in community service activities. In 2006, we launched the "China Green Map Project" (中國綠色版圖) campaign, in which we plant trees to help environment. Since the launch of this campaign, we have successively carried out tree planting activities, such as "Let's Plant a Tree for Yellow River" (我為黃河種棵樹), "Let's Plant a Tree for Yangzi River" (我為長江種棵樹) and "Let's Plant a Tree for Consumers" (我為消費者種棵樹), in Shanxi, Guangdong, Beijing, Shandong, Gansu and Guizhou, covering the basins of both the Yellow River and Yangzi River. In 2007, we launched the "Nature Green Cradle Project" (大自然綠色搖籃計劃) campaign, in which we worked with our distributors to establish scholarship funds in Beijing Forestry University, Northeast Forestry University, Central South University of Forestry & Technology, South China Agricultural University and Nanjing Forestry University to provide students with financial aid.
- *Brand promotion events.* We periodically organize sales promotion events. In 2010, we launched the "Nature Flooring Sunshine Charity Sales" (大自然地板陽光助學義賣) event. The profits from this event were donated to provide financial assistance for students from poor families. In addition, we conduct joint marketing activities. In April 2009, we launched the "Champion Alliance" (冠軍聯盟) promotional program with five other leading household products manufacturers in China. Alliance members jointly conduct brand promotion activities in different cities in China. Customers who purchase the products of two participating companies are eligible to receive a discount when purchasing products from other participating companies. In addition, in 2010, we collaborated with a major home appliances manufacturer in China to launch the "Green

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Benefits Sharing Plan” (綠色惠享計劃), promoting the green image of our products and providing customers purchasing our branded products with a free television.

- *Flagship stores.* As of December 31, 2010, our distributors had opened over 45 flagship stores located in over 35 cities across China. We plan to work with our distributors to establish more flagship stores in other cities. These flagship stores, which are generally bigger than other Retail Stores, will provide customers with a comprehensive selection of our branded products, and are intended to serve as a platform for us to display and demonstrate our newly developed products.

Our distributors also conduct local promotional activities within their geographic areas. We pay the cost of our nationwide marketing and brand promotion campaigns. Other than the nationwide campaigns, our distributors are responsible for the local operating, marketing and promotional costs of the outlets, as well as in-store marketing campaigns, although we may at our discretion reimburse distributors for some of their costs.

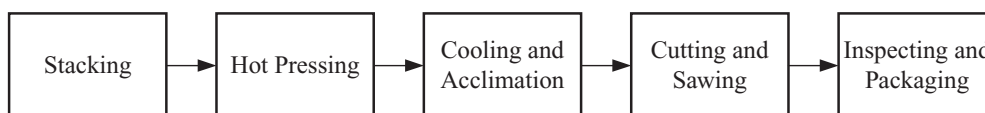
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Manufacturing Process

Laminated flooring

During the Track Record Period, all of our branded laminated flooring products were manufactured by our own factories.

The following chart sets forth the major steps involved in the production of laminated flooring:



(1) Stacking

The process begins with the assembly of four layers of raw materials. The foundation layer consists of a piece of “equilibrium paper” made to inhibit moisture from seeping into the planks above it, while improving the structural integrity of the whole piece. The second layer consists of a fiberboard. The third layer, which is the design or pattern layer, is a high-resolution replication photo of real wood or a variety of other motifs. The fourth and face layer consists of a piece of “wear-proof paper” which typically contains aluminum oxides for protecting the third layer as well as increasing the life-span of the product.

(2) Hot Pressing

The stacks of layers are then pressed by hydraulic machines at high temperature and pressure. If the laminated flooring that is being manufactured is designed to have a textured surface, the press has specialized plates that imprint the textured pattern onto the sheets.

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(3) Cooling and Acclimation

After the sheets are pressed, they are left to cool off and then stacked and stored in a warehouse with stable temperature and humidity for approximately seven days so that they can acclimate, which enhances the stability of the boards.

(4) Cutting and Sawing

Once the boards are fully acclimated, they are cut into pieces. The freshly cut planks, following another acclimation process, then move on to be grooved and profiled.

(5) Inspecting and Packaging

The last step is a manual inspection designed to remove warped, discolored and non-interlocking laminate boards. Products which pass inspection are packaged and moved to the storage facility.

Engineered flooring

During the Track Record Period, our branded engineered flooring products were manufactured through a combination of our own factories and authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1% of the total Wholesale Volume of our branded engineered flooring products, respectively.

Engineered flooring is made from veneer and plywood, glued together with pressure, which results in a multi-layer plank with a top layer of pure hardwood. If the plywood consists of three layers, the engineered flooring is typically called three-layered engineered flooring, and if it consists of multiple layers, it is called multi-layered engineered flooring. We do not manufacture three-layered or multiple-layered plywood. Instead, we purchase it from third-party suppliers.

Similar to laminated flooring, the production of engineered flooring also involves pressing, cooling and acclimation, cutting, sawing and inspection and packaging. Two additional steps are involved:

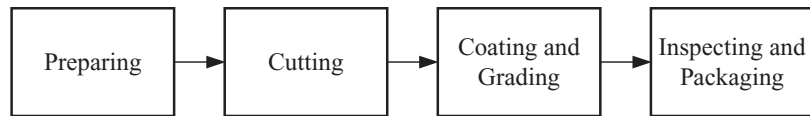
- *Glue application.* Before the pressing, the veneer and plywood need to pass under a roll coater where glue is applied; and
- *Coating.* After the engineered flooring plank is cut and sawed, it undergoes a coating process on a specialized flooring coating machine to protect the surface of the engineered flooring and enhance its decorative effects.

In addition, unlike laminated flooring that contains layers stacked on top of each other with accuracy and precision, the different layers of plywood for engineered flooring are stacked on top of each other in the opposite directions. This is called “cross-ply construction,” a structure used to create a wood plank that is dimensionally stable and less affected by moisture than solid wood flooring.

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Solid wood flooring

We do not manufacture solid wood flooring products. During the Track Record Period, all of our branded solid wood flooring products were manufactured by authorized manufacturers. The following chart sets forth the major steps involved in the production of solid wood flooring:



(1) Preparing

The process begins with examining the quality of the solid wood veneers to remove those with material defects. The veneers are then dried and polished on the surface.

(2) Cutting

The polished veneers are then cut into solid wood planks with desired length, width and thickness.

(3) Coating and Grading

The solid wood planks then go through a coating process and are thereafter graded into different categories.

(4) Inspecting and Packaging

The last step is a manual inspection designed to remove discolored and defective planks. Qualified products which pass inspection are packaged and moved to the storage facility.

Authorized Manufacturing Network

During the Track Record Period, we partnered with authorized manufacturers to manufacture a majority of our branded engineered flooring and all of our branded solid wood flooring. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1% of the total Wholesale Volume of our branded engineered flooring products, respectively. We also added two authorized manufacturers in which we held 19% equity interest in January 2011. The two authorized manufacturers commenced operations in April 2011 to manufacture our branded laminated flooring. Through the use of authorized manufacturers, we can maintain manufacturing flexibility and expand the manufacturing capacity available to us without significant capital expenditures for factory expansion. We also reduce our exposure to inventory backlog and price fluctuations in raw materials and finished products, which are borne by authorized manufacturers.

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Authorized manufacturers are our customers, and are independent third parties other than the two joint venture authorized manufacturers described above. They manufacture only our branded products and must sell these products exclusively to distributors in our distribution network, for which we charge trademark and distribution network usage fees and we do not generate revenue from sales of those branded products by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own factories accounted for 60.5%, 66.7% and 67.3% of the total Wholesale Volume of our branded products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 37.7%, 31.4% and 30.3%, respectively. During the same periods, we earned trademark and distribution network usage fees of approximately RMB153.4 million, RMB160.2 million and RMB202.1 million from authorized manufacturers, accounting for approximately 17.3%, 16.2% and 12.4%, respectively, of our total revenues, and the gross profit generated from fees earned from authorized manufacturers accounted for 44.1%, 44.1% and 39.3% of our total gross profit, respectively.

We carefully select authorized manufacturers based on numerous factors, including experience in manufacturing and timber procurement, proximity to raw materials, financial strength and management capabilities. We have been able to be highly selective, as well as timely, in selecting new authorized manufacturers. As of December 31, 2010, we had ten authorized manufacturers, excluding the two joint venture authorized manufacturers which were added in January 2011 and commenced operations in April 2011.

The following table sets forth certain information relating to the ten authorized manufacturers as of December 31, 2010:

Location (province in China)	Year of Entry into Our Authorized Manufacturing Network	Major Products	Production			Contractually Committed Production Capacity		
			Year Ended December 31,			Year Ended December 31,		
			2008	2009	2010	2008	2009	2010
			(sq.m. in thousands)					
Guangdong ⁽¹⁾	2007	Solid Wood Flooring	904	1,290	1,392	1,400	1,400	1,400
Zhejiang	2007	Solid Wood Flooring	642	1,048	1,212	550	600	900
Zhejiang	2007	Solid Wood Flooring	1,041	1,186	1,103	1,100	1,100	1,100
Yunnan	2007	Solid Wood Flooring	300	165	234	300	300	300
Guangdong	2009	Solid Wood Flooring	—	117	242	—	360	360
Jiangsu	2009	Solid Wood Flooring	—	45	429	—	240	240
Guangdong	2009	Engineered Flooring	—	1,267	1,448	—	1,400	1,500
Guangdong	2009	Engineered Flooring	—	376	904	—	440	440
Yunnan	2010	Solid Wood Flooring	—	—	52	—	—	150
Heilongjiang ⁽²⁾	2010	Engineered Flooring	—	—	—	—	—	—

Notes:

- (1) This authorized manufacturer used to manufacture engineered flooring in 2008.
- (2) This company became our authorized manufacturer in December 2010.

As of December 31, 2010, these authorized manufacturers had an average of approximately two years' relationship with us. All of them are manufacturers of wood flooring products. Since entering into our authorized manufacturing network, they only manufacture our branded flooring products.

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The following table illustrates the movement of authorized manufacturers during the Track Record Period.

<u>Number of authorized manufacturers</u>	<u>Year ended December 31,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Addition	0	4	2
Termination	0	2	0
Year-end Number	6	8	10 ⁽¹⁾

Note:

- (1) It excluded the two joint venture authorized manufacturers which were added in January 2011 and commenced operations in April 2011.

During the Track Record Period, we partnered with six additional authorized manufacturers and replaced one underperforming authorized manufacturer and one authorized manufacturer which closed its business. The replaced underperforming authorized manufacturer entered into relationship with us in May 2007. When our agreements with such authorized manufacturer expired in June 2009, we chose not to renew the agreement because such authorized manufacturer failed to contribute the fees we expected due to its actual output being far below its committed production capacity. In 2008 and 2009, we earned approximately RMB16 million and RMB0.7 million fees from such authorized manufacturer. The other replaced authorized manufacturer entered into relationships with us in May 2007. In January 2009, such authorized manufacturer closed its business when the land on which such authorized manufacturer was located was used by the local government for other purposes. In 2008, we earned approximately RMB50 million from such authorized manufacturer.

Trademark Licensing and Distribution Network Usage Agreements

We entered into a trademark licensing agreement with each of our ten authorized manufacturers as of December 31, 2010, pursuant to which we grant authorized manufacturers the right to use our trademarks for a trademark licensing fee, which is calculated based on their monthly output and sales. During the Track Record Period, approximately 22% to 23% of the trademark licensing fee was earned based on the output of authorized manufacturers and the remaining approximately 77% to 78% was earned based on their sales volume. Pursuant to the agreement, the trademark licensing fee is calculated on a monthly basis and is generally payable 120 – 180 days thereafter. The trademark licensing agreement typically have a one-year term, renewable by mutual agreement. It also contain a number of provisions to protect our trademarks, including (i) authorized manufacturers are not allowed to manufacture any products other than those to be labeled with our trademarks; (ii) the quality of products manufactured by authorized manufacturers must satisfy our requirements and those requirements imposed by applicable law; (iii) authorized manufacturers are restricted from engaging in activities that may harm our trademarks, such as altering our trademarks; (iv) authorized manufacturers are obligated to notify us in writing of any unauthorized use of our trademarks to their awareness and thereafter shall assist us in any follow-up investigations; and (v) if any authorized manufacturer breaches the foregoing provisions, we are entitled to unilaterally terminate the agreement and be indemnified against our damages incurred as a result of the breach.

We also entered into distribution network usage agreements with each of our ten authorized manufacturers as of December 31, 2010, pursuant to which they agree to sell their products exclusively to the distributors in our distribution network, for which we charge a distribution network usage fee,

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which consists of a fixed fee calculated based on authorized manufacturers' committed annual production capacity and a variable fee which is based on authorized manufacturers' actual sales volume. During the Track Record Period, the fixed fee accounted for approximately 34% to 42% of the distribution network usage fees earned from authorized manufacturers and the variable fee accounted for the remaining approximately 58% to 66%. Pursuant to the agreement, the distribution network usage fee is calculated on a monthly basis and is generally payable 120 – 180 days thereafter. Pursuant to the agreement, we are responsible for the maintenance of our distribution network and the promotion of our brands. The distribution network usage agreement typically have a one-year term, renewable by mutual agreement. Because the trademark licensing and distribution network usage fees that we charge our authorized manufacturers are calculated based on either output or sales, such fees are not affected by changes in raw materials prices.

We also entered into a trademark licensing agreement and a distribution network usage agreement with each of the two joint venture authorized manufacturers. See “— Joint Venture Authorized Manufacturers.”

Supervision of Authorized Manufacturers

Authorized manufacturers generally operate independently from us. Our team of over 20 on-site representatives provides authorized manufacturers with technical and logistics support and conduct quality control measures on their products. Set forth below are primary aspects of our supervision of our ten authorized manufacturers as of December 31, 2010.

Production and Quality Control

Authorized manufacturers are responsible for procuring their own raw materials supply, and they source a portion of timber and veneers from us. Authorized manufacturers manage their own production independently from us. All products manufactured by authorized manufacturers are packaged using packaging materials purchased from us. We set the design and look of the packaging. Authorized manufactures generally manage their own warehouses, inventory and logistics relating to the product transportation. However, we have recently started to require authorized manufacturers to deliver their products through China Merchants Logistics, a reputable independent third-party logistics provider whose services we engage and pay for, so that we can more efficiently monitor the sales volume of their products. We require China Merchants Logistics to obtain a signed statement from the person receiving the products as to the volume of the products delivered. The statement needs to be submitted to us together with the monthly invoice before we make the relevant payment to China Merchants Logistics. For detailed terms of the agreement entered into with China Merchants Logistics, please see “— Inventory and Logistics.” In addition, by engaging the service of a reputable third-party logistics provider, we intend to standardize the delivery process and improve the quality of the delivery service for our branded products, so that we can reinforce the loyalty of our existing distributors and make our distribution network attractive to potential new distributors.

Products manufactured by authorized manufacturers must meet our quality control standards and conform to the applicable national standards. Authorized manufacturers must periodically submit their products, at their own expense, for quality inspections by independent third-party inspectors or our own quality inspection center. If during the quality inspection the passing rate falls below 95%, we may terminate our agreements with the authorized manufacturers. We also place our quality control

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personnel on-site at authorized manufacturers' factories to monitor product quality, provide necessary technical support and train their own quality control teams.

We generally require authorized manufacturers to provide a two-year period of warranty for their products to cover quality defects. Subject to certain restrictions under the warranty policy, authorized manufacturers are obligated to provide free exchange, return, discount or compensation with respect to the defective product. During the Track Record Period, we were not aware of any material instances of free exchange, return, discount or compensation with respect to the products manufactured by authorized manufacturers.

Pricing and Sales

We work closely with authorized manufacturers to determine the wholesale prices of the products that they sell to our distributors, taking into consideration factors such as raw materials costs and market retail prices. However, authorized manufacturers have the discretion to determine the final wholesale prices of their products according to their own operations. After the prices are determined, we provide our distributors with a detailed price list by product specification. Our sales team notifies authorized manufacturers upon the receipt of an order from our distributors. Afterwards, sales occur directly between authorized manufacturers and the relevant distributors. Authorized manufacturers determine their own payment terms, including the extension of credit (if any). Our sales team works with authorized manufacturers to monitor and calculate their monthly sales volume for the purpose of determining the trademark and distribution network usage fees payable to us.

Monitoring of Production and Sales Volume

As the fees we charge authorized manufacturers are primarily based on their production and sales volume, we take the following measures to monitor the production and sales volume of authorized manufacturers: (i) we place our personnel on-site at authorized manufacturers' factories to calculate and record their production and sales volume on a daily basis and we require that record to be signed and acknowledged by the representative of authorized manufacturers; (ii) we estimate their production volume based on the packaging materials they purchased from us; (iii) we require our sales team to keep a record of the order they receive from our distributors for products manufactured by authorized manufacturers; and (iv) we have started to require authorized manufacturers to deliver their products through China Merchants Logistics. See “— Production and Quality Control” above.

Joint Venture Authorized Manufacturers

As part of our strategy to expand network of authorized manufacturers to manufacture an increasing proportion of our branded products across our portfolio, in July 2010, we and Guangdong Weihua, an independent third party, established two joint venture companies, Liaoning Tai'an and Hubei Xiangfan, to manufacture laminated flooring. Pursuant to the articles of association of Liaoning Tai'an and Hubei Xiangfan, we hold 19% interest at capital contribution of RMB7.6 million and one out of seven board seats in each of the joint venture companies. The amount of our capital contribution was determined and based upon the expected capital needs of these two joint venture companies. We have no future capital commitment to the two joint venture companies by the end of 2011. Guangdong Weihua will be mainly responsible for supplying fiberboards for the joint venture companies while we

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will assist the joint venture companies with technical support and product distribution through our distribution networks. The profits of the joint venture companies will be shared and distributed according to the shareholding of the companies pursuant to the relevant PRC laws and regulations. Liaoning Tai'an and Hubei Xiangfan commenced operations in April 2011. This is our first time to cooperate with authorized manufacturers to manufacture laminated flooring products. We have made minority equity investment in these two joint venture companies because as a joint venture partner, we can more actively monitor the manufacturing and operation of two joint venture authorized manufacturers for better assurance of the quality of our branded products. We believe our minority equity investment in these two authorized manufacturers would strengthen our cooperation with them by aligning our interest, benefit from business strengths of Guangdong Weihua and take advantage of the fast growing laminated flooring market in China.

Similar to arrangements with our existing authorized manufacturers, in January 2011, we entered into a trademark licensing agreement and a distribution network usage agreement with Liaoning Tai'an and Hubei Xiangfan, pursuant to which they are obligated to manufacture only our branded products and must sell these products exclusively to our distributors, for which we charge trademark and distribution network usage fees. These agreements also have a one-year term, renewable by mutual agreement. However, unlike arrangements with our existing ten authorized manufacturers as of December 31, 2010, we charge trademark and distribution network usage fees based on revenues of Liaoning Tai'an and Hubei Xiangfan, rather than their production and sales volume. This is because the two joint venture companies manufacture our branded laminated flooring products. The selling price of laminated flooring products is relatively more stable, with smaller price ranges between different products, compared to solid wood flooring and engineered flooring products. Consequently, it is more practicable to charge the two joint venture companies the trademark and distribution network usage fees by revenue. The fees are calculated on a weekly basis and become payable immediately. In addition, Liaoning Tai'an and Hubei Xiangfan must purchase raw materials for manufacturing laminated flooring from Guangdong Weihua's subsidiaries at a small discount to the market price.

There will be minimal competition between our existing authorized manufacturers and the two new joint venture companies due to product differentiation since our authorized manufacturers are not engaged in the manufacturing of laminated flooring products. There will be minimal potential competition between our own factories manufacturing laminated flooring and the two new joint venture companies as our own factories and the new joint venture companies have different geographical and customer focus. The two new joint venture companies are expected to primarily focus on the laminated markets in Liaoning Province and Hubei Province and their nearby areas in China. Any potential competition is expected to be reduced due to the cost of transporting the products to the different areas in China in which we and the two joint venture companies operate.

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Manufacturing by Our Own Factories

Factories

As of December 31, 2010, we owned and operated six factories in China, which manufacture laminated flooring, engineered flooring, fiberboards and veneers. The following table sets forth certain information relating to our factories:

Factory	Location (province in China)	Year of Commencement of Production	Major Product	Production Lead Time ⁽¹⁾ (days)	Production			Production Capacity			Utilization Rate		
					Year Ended December 31,			Year Ended December 31,			Year Ended December 31,		
					2008	2009	2010	2008	2009	2010	2008	2009	2010
					(sq.m. in thousands)			(%)					
Flooring													
Zhongshan													
Nature	Guangdong	2005	Laminated flooring	14 – 15	4,976	6,425	4,960	5,500	6,600	6,600	90.5%	97.4%	75.2%
Guangdong													
Yingran	Guangdong	2007	Laminated flooring	10	2,236	2,888	3,025	3,000	3,500	3,500	74.5	82.5	86.4
Kunshan													
Nature	Jiangsu	2008	Multi-layered engineered flooring	15 – 20	867	723	959	1,100	1,100	1,400	78.8	65.7	68.5
Jiangxi													
Yingran	Jiangxi	2009	Laminated flooring	8	—	1,353	5,752	—	2,400	7,000	—	56.4	82.2
Others													
Zhangjiagang													
Nature	Jiangsu	2009	Veneers	5 – 60 ⁽²⁾	—	92	298	—	180	360	—	51.1	82.3
Jiangxi													
Nature	Jiangxi	2009	Fiberboards	6	—	2,495	7,148	—	3,000	8,900	—	83.2%	80.3%

Notes:

(1) It excludes the time required to source raw materials.

(2) It depends on whether the manufacturing process starts with processing the log or semi-finished products.

Quality Control

We believe that we have developed an effective quality control system, which is evidenced by our receipt of the ISO 9001:2008 quality management system certificate from the China United Certification Center (中聯認證中心) in 2010.

We have established a centralized product quality center in our headquarters. The center primarily consists of a testing laboratory and two departments: (i) a quality standard department, which is responsible for formulating and implementing uniform quality standards for our various branded products; and (ii) an inspection department, which is responsible for routine or *ad hoc* examinations and inspections of our branded products. The routine examinations and inspections by our inspection department are conducted on a daily basis. Our testing laboratory is equipped with advanced testing technologies and equipment, and has received the recognition from China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會), a national accreditation body responsible for the accreditation of laboratories, among others. As of December 31, 2010, our product quality center had 29 full-time employees and approximately half of them held a bachelor's degree in wood processing and related areas.

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Our quality control measures cover various stages of our operations. At the raw material procurement stage, we employ strict criteria in selecting our suppliers and conduct sample tests to ensure that the raw materials we purchase meet our quality standards. Our product quality center has the right to veto the use of raw materials that fail the sample tests. In particular, for the raw materials that fail our test relating to the content and emission of chemicals, our policy is to return such raw materials to the relevant suppliers, require them to rectify the problems within a specified period and, if they fail our test for the second time, terminate our relationships with such suppliers. In addition, we also invite independent third-party inspectors to conduct, at the expenses of the relevant suppliers, sample tests of our raw materials from time to time to ensure that the raw materials we purchase do not contain or release excessive chemicals. During the manufacturing process, we arrange for our quality control staff to conduct on-site inspections at our own factories to ensure our products meet our quality standards and comply with applicable regulatory requirements, including those relating to the content and emission of chemicals of flooring products. After the assembly stage, our quality control staff conducts sample tests on the finished products to assess their functionality and quality. During the Track Record Period, we generally achieved high rates of qualified products in our sample tests, which are over 95% in most cases. We were not subject to material product warranty, recall or other product related claims during the Track Record Period.

Inventory and Logistics

We strive to minimize excess levels of raw materials and finished goods in our inventory while maintaining our ability to supply the demands of our distributors and customers. In this regard, we maintain a certain level of inventories of finished products, as well as procure raw materials according to a production plan based on our estimate of distributor demand. For logistics, we have started to engage China Merchants Logistics, a reputable third-party logistics provider, to deliver our products. Our products are usually delivered through road or maritime transportation.

For inventory and logistics of authorized manufacturers, see “— Manufacturing — Authorized Manufacturing Network — Supervision of Authorized Manufacturers.”

In May 2010, we entered into a delivery service agreement with China Merchants Logistics to engage China Merchants Logistics to deliver our branded products manufactured by our own factories and authorized manufacturers. The agreement has a one-year term, which is renewable upon mutual consent. Pursuant to the agreement, we are entitled to use the service of other logistics companies and do not commit a minimum volume for delivery by China Merchants Logistics. The per unit price and delivery deadline are set forth in a detailed list attached to the agreement, which varies depending on the locations of the factories and desired delivery location as well as the method of transportation. The list is subject to a quarterly adjustment upon negotiation and mutual agreement. In delivering products, we require China Merchants Logistics to obtain an executed statement from the person receiving the products as to the volume of the products delivered. Upon receipt of a monthly invoice evidenced by such statement, we are obligated to make the payment within 20 days. In connection with our arrangement with China Merchants Logistics, we incurred expenses of RMB21.4 million in 2010 and we expect to incur expenses of RMB35.5 million in 2011. These expenses are recorded under our distribution costs.

Raw Materials Supply

The principal raw materials used in our production of wood flooring products include timber, veneers, fiberboards and plywood.

Internal Sourcing

Fiberboard is a primary component of laminated flooring, and its cost typically accounts for approximately 60% of the total raw materials cost for laminated flooring production. In April 2008, we established Jiangxi Nature to specialize in the manufacturing of fiberboards, which is located in close proximity to one of our laminated flooring factories, Jiangxi Yingran. Substantially all of the fiberboards manufactured by Jiangxi Nature are provided to Jiangxi Yingran. In 2010, we sourced approximately 45% of our fiberboard purchases from Jiangxi Nature.

Similarly, veneer is a key material in the production of engineered flooring, and its cost typically accounts for approximately 30% of the total raw material cost for engineered flooring production. Our veneer manufacturing factory, Zhangjiagang Nature, was established in March 2008 and supplied approximately 8% of our veneer purchases in 2010. Veneers manufactured by Zhangjiagang Nature are primarily sold to Kunshan Nature, which is located in close proximity to Zhangjiagang Nature.

The price of our internal purchases of fiberboards and veneers is primarily based on applicable market prices. During the Track Record Period, we did not receive any notice from government authorities relating to the illegality of our internal sourcing of raw materials, nor were we aware that any of our key manufacturers sourced their raw materials from illegal sources.

External Supply

We purchase other raw materials, including a portion of fiberboards and veneers, woods for manufacturing fiberboards and veneers, plywood and glue primarily from domestic external suppliers. We primarily purchase small branches of pine, poplar and other miscellaneous species to manufacture fiberboards. We primarily purchase 0.6 millimeter-thick and 2.0 millimeter-thick veneers made from woods such as elm, sapele and bintangor and plywood primarily made from eucalyptus, birch, poplar and other miscellaneous species to manufacture engineered flooring.

We select raw materials suppliers based on a broad range of factors, including their financial strength, ability to provide high quality supplies at a reasonable price, product quality control, product development, sourcing of raw materials, human resources, administrative and logistics management capabilities. New candidates that apply to become our suppliers are required to go through a stringent selection process. We usually make a preliminary selection of the candidates by requiring them to provide us with relevant production licenses, following which we conduct a site visit to evaluate whether they meet our selection criteria.

Our supply agreements with suppliers generally range from three months to one year. For certain agreements, particularly short-term agreements, the price and volume are fixed. Most of our supply agreements, however, provide that the price and volume are subject to the final purchase order and price confirmation sheet. We are typically granted credit periods of 60 days by our suppliers.

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We are committed to source wood from legitimate sources. In this regard, when selecting our raw material suppliers, we evaluate the relevant suppliers' sourcing management policies. We also generally require our suppliers to undertake the legitimacy of their source of wood in the supply agreements. In addition, for wood sourced from the PRC, we generally require our suppliers to provide us, together with their delivery, documents evidencing the legitimacy of their source of wood such as logging permit and wood transportation permit of their supply. All these documents are subject to the examination and approval by officers from the local government forest bureau. For wood sourced outside of the PRC, we generally require our suppliers to provide us with documents evidencing compliance with applicable PRC laws and regulations relating to wood import such as custom clearance documents. However, we do not independently verify the information and documentation evidencing the legitimacy of wood supply provided by our domestic and overseas' suppliers. See "Risk Factors — Risks Relating to Our Business — Disruptions in our supply of raw materials could materially and adversely affect our business, financial condition and results of operations." During the Track Record Period, we did not receive any notice from government authorities relating to the illegitimacy of our wood supplies, nor were we aware that any of our key suppliers sourced timber from illegitimate sources.

According to Pöyry, the price of industrial round timber in China rose 3%-5% per annum during the Track Record Period. The prices of imported softwood log have increased considerably between 2003 and 2008, driven primarily by the continued significant growth in the demand of softwood log in China, and the high ocean freight rate. Although the global financial crisis resulted in a price decline during the late 2008 and early 2009, price recovered in 2009 and continued to increase in 2010 with renewed demand. The prices of domestic softwood log in China are found to be broadly in line with the imported log price trend. According to Pöyry, log prices are expected to increase by around 1%-2% per annum over the next four years.

We believe we have developed stable relationships with many of our key suppliers. We retain at least two suppliers for each principal raw material. We have not encountered material disruption to our business as a result of a shortage of raw materials.

For raw materials supply of authorized manufacturers, see "— Manufacturing — Authorized Manufacturing Network — Supervision of Authorized Manufacturers."

OUR FORESTS

We began to selectively acquire strategic upstream forest assets in 2009. We expect our investment in forest assets to help ensure a more stable supply of high-quality timber for authorized manufacturers in connection with their manufacturing of our branded solid wood flooring products, through which we hope to reinforce the loyalty of authorized manufacturers and better ensure we receive stable fees from authorized manufacturers. We take into account a number of criteria when deciding whether we will acquire a target forest, including the location of the forest, the size and species of trees contained in the forest, the stock volume of the forest, the accessibility of the forest and the availability of labor in the locality. We entered into a lengthy negotiation process with the third party transferors of the forests, lasting several months in each case. Comparable market sales information was not available in respect of the forests. However, in agreeing a final purchase price, we took into account the sale price offered during negotiations, and performed a comparison against our

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internal assessment of the value of the forests based on factors such as the species of trees within the forest area. The agreed price was fully paid upon completion of the transfer of the forest concessions to our Group in each case.

As of December 31, 2010, we owned standing trees and related concession rights in 4,445 hectares and 46,347 hectares of forests in Yunnan Province, China and Loreto Province, Peru, respectively. We intend to supply the timber harvested from these forests primarily to authorized manufacturers for their manufacturing of our branded solid wood flooring. These forests contain several species of trees which are used in premium solid wood flooring products, such as jatoba (欏葉蘇木) and cumaru (二翅豆). We expect that our Yunnan and Peru forests in aggregate will produce timber in the amount of approximately 21,000 cubic meters and 51,000 cubic meters in 2011 and 2012, respectively, and supply approximately 5.8% and 12.8% volume of timber needs of authorized manufacturers during the same periods calculated based upon their expected timber needs.

Yunnan Forests

In 2010, we completed the acquisition from independent third parties of standing trees and related concession rights in 4,445 hectares of forests located in Yunnan Province of China at the consideration of approximately RMB41.5 million. The forests we acquired consist of three blocks. The first block is approximately 1,608 hectares, with attached forestry land use right, forestry tree ownership right and forestry tree use right commencing from February 2010. The second block is approximately 1,222 hectares, with such attached rights starting from May 2010, while the third block is approximately 1,615 hectares, with such attached rights starting from July 2010. See “Appendix VI — Summary of Our Property Rights of Yunnan Forests.” The price was determined through an arm’s length negotiation. We plan to start the commercial logging in the second half of 2011 upon receipt of relevant approvals and permits.

The PRC laws recognize the following four types of rights with respect to forests in China:

<u>Type of Rights</u>	<u>Description</u>	<u>Primary permitted activities</u>
Forestry land ownership right	Right to own the forestry land for use as commercial tree plantations	N/A
Forestry land use right	Right to use the forestry land for use as commercial tree plantations	Tree plantation
Forestry tree ownership right	Right to own the trees on a commercial tree plantation	Tree exploitation
Forestry tree use right	Right to use the produce (i.e. fruit) of the trees	Own and use the fruits and products extracted from trees

Pursuant to the relevant forest resources transfer agreements, we have obtained the forestry land use right, forestry tree ownership right and forestry tree use right for our Yunnan forests. Our such rights are valid for a period through the year 2060, 2077 and 2078 for approximately 1,105, 613 and 2,726 hectares of our Yunnan forests, respectively. With respect to the forestry land ownership right,

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all of the forestry land in China is either owned by the State or owned by collective organizations, and is not transferable.

Our rights in respect of our Yunnan forests are subject to various regulatory restrictions. For example, we are not allowed to use the forestry land for purposes other than plantation. In addition, we are obligated to comply with regulations relating to logging activities and reforestation. For example, we need to apply for logging permit before conducting any logging activities. For details of our rights in respect of our Yunnan forests, see “Appendix VIII — Summary of Principal PRC and Peruvian Legal and Regulatory Provisions — PRC Laws and Regulations — Laws and Regulations relating to Forest” to this prospectus.

To start commercial logging activities in our Yunnan forests, we need to obtain a logging permit from the local county-level forestry administration authority. The logging permit will set forth, among others, (i) the total volume of timber we are permitted to harvest in a specified period, and (ii) the detailed reforestation requirement, including the number and species of trees required to be planted and the timeline to finish the plantation. We submitted our application for the logging permit in respect of our Yunnan forests in December 2010 and expect to receive the approval and start our commercial logging activities in the second half of 2011. As of the Latest Practicable Date, we were not aware of any circumstance that may prevent us from obtaining the permit under PRC laws and regulations. Our PRC legal advisors, Haiwen & Partners, also advised as of the Latest Practicable Date there were no material legal impediments for us to receive such a permit.

In preparation for the commencement of commercial logging activities in our Yunnan forests, we have recruited three forest engineers to take charge of the overall management. They have an average of more than 20 years’ experience in forest management in China. We plan to engage independent third-party contractors to conduct logging activities and are currently in talks with several candidates. The average age of the standing timber in our Yunnan forests is approximately 40 years. We plan to start numbering the trees and separate the species in July 2011 for harvesting purposes. One of our authorized manufacturers located in Yunnan who manufactures our branded solid wood flooring products plans to establish a sawmill near our forests to cut our felled logs. To transport felled logs from our forests to the sawmill, we plan to engage independent third party transportation companies. With respect to reforestation, we plan to plant pine or other species of trees in accordance with the reforestation requirements set forth in the logging permit.

Peru Forests

In December 2009, we acquired from an independent third party standing trees and related concession rights in 46,347 hectares of forests located in the Loreto Province of Peru, for a period through the year 2045, at the consideration of approximately RMB19.0 million. The price was determined through an arm’s length negotiation. Our Peru forests contains more than 20 species of trees whose wood are desirable for the manufacturing of solid wood flooring products. Relevant approvals and permits have been obtained in February and March 2011, and we plan to start the commercial logging by the end of June 2011.

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Peruvian law recognizes the following four types of rights with respect to forestry concessions with timber purposes in Peru:

<u>Type of Rights</u>	<u>Description</u>	<u>Primary permitted activities</u>
Right to the sustainable use of the forestry timber resources	Exclusive right to clear-cut the trees and to extract their stems or other useful parts, for their use, marketing and/or industrial processing	Tree exploitation
Right to own the extracted resources	Right to own the fruits and products extracted	Own and use the fruits and products extracted from trees
Right to use the land	Right to use the lands located within the area under concession	Tree plantation
Right to use other resources	Right to use and benefit from the wildlife and wild flora existing within the area under concessions	Conduct ecotourism activities, utilize carbon credits generated by forests

Under the relevant concession agreements dated May 12, 2005 and July 25, 2005, respectively, we have since obtained the right to the sustainable use of the forestry timber resources, the right to own the extracted resources and the right to use the lands for our Peru forests, as long as such use is compatible with the sustainable use of the forestry resources. Our rights are subject to the annual operation plan, which must be approved by the government before the start of the operating year covered by the relevant plan. We have obtained the approval of our current annual operational plan in March 2011. These three rights are valid through the year 2045 and can be exercised within the concessions area and in accordance with the relevant concession agreements, the general forestry management plan and the annual operational plans approved by the relevant forestry authorities. We may also use the wildlife and wild flora resources existing within the concessions’ area for tourism, environmental services or other purposes, as long as these activities are included in the approved general forestry management plan and the annual operational plans.

Approximately 40% of our Peru forests overlaps with the cushioning area of the Pacaya Samiria National Reserve. The Pacaya Samiria National Reserve, which is recognized as a Protected National Area in Peru, is subject to the control of the National Service of Natural Areas Protected by the State, the Peru governmental agency having jurisdiction over national parks and reserves in Peru. The Pacaya Samiria National Reserve is the largest Protected National Area in Peru and surrounded by its cushioning area, which is a 10-kilometers-wide strip around the border of the national reserve, and which was officially declared as a natural reserve. The cushioning area was declared in order to preserve the environment of the core area of the Pacaya Samiria National Reserve, home to 965 species of wild plants, 59 species of cultivated plants and 1,025 species of vertebrate animals. See “Appendix VIII — Summary of Principal PRC and Peruvian Legal and Regulatory Provisions — Peruvian Laws and Regulations — Commercial Activities in Cushioning Areas.” However, pursuant to an opinion issued per our request by the National Service of Natural Areas Protected by the State, the Peru governmental agency having jurisdiction over national parks and reserves in Peru, exploitation activities of trees can be pursued in such cushioning area in accordance with the general forestry management plan and the annual operational plans approved by the relevant forestry authorities. Therefore, we believe that the overlapping of part of our Peru forests with the cushioning area of Peru’s national reserve does not adversely affect our forest operations in Peru in any material respects.

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We have obtained in February and March 2011 the government approval of our general forestry management plan and annual operational plan required to start commercial logging activities in our Peru forests. Under Peruvian laws and regulations, the management plan is defined as a device of management and control for the operations of forest management. Its conception and design must allow the identification with anticipation of the activities and operations required to achieve the sustainability of its use. Moreover, two levels of planning are set: (i) the general forestry management plan, which provides the general frame of strategic planning and business projection for the long term, formulated as a minimum for all the term of validity of the concession; and (ii) the annual operational plan, which provides the operational planning for the short term, for the operating year of the concession which may or may not coincide with the calendar year. Once both these plans are approved by the regional government where the concession is located, commercial exploitation of the forest can occur in accordance with the terms of the approved plans.

Under the general forestry management plan, the productive forest area of the concession is divided into five-year blocks. Each five-year block represents an area in which the concessionaire will carry out five years of operations, including those related to the use of the area covered by the block, the design of the transport system, road construction and other activities. The blocks are identified numerically, and harvesting is carried out in each of the blocks in turn, for five years each. Before commencing commercial logging in a concession area, we must conduct a survey and identify the trees in the relevant area that we intend to conduct commercial logging. At the end of the five-year harvesting period for the last block in the concession, the concessionaire may return to harvest the first block, and thus the cycle will repeat. The annual operation plan is prepared each year by reference to the general forestry management plan, which sets forth the number and details of trees that the concessionaire intends to fell during a particular year. The annual operation plan must be approved by the relevant authorities in Peru before the start of the operating year covered by the relevant plan and as approved, will define the number of trees that we could fell in such operating year. See “Appendix VIII — Summary of Principal PRC and Peruvian Legal and Regulatory Provision — Peruvian Laws and Regulations — Forest Management.”

We have identified 32 species of tree in the Peru plantation which can be used for producing flooring products, including aguano masha, alcanfor, ana caspi, azucar huayo, cachimbo, cachimbo blanco, catahua, cedro, cedro masha, chontaqui, copaiba, cumala, estoraque, huangana casha, huayruro, lupuna, machimango, mari mari, marupa, mashonaste, moena, ochavaja, pashaco, pumaqui, quillobordon, quinilla, requia, shihua huaco, tahuari, tornillo, yacushapana and zapote. It is reported by the valuation reports prepared by Pöyry that, of the two forest concession blocks in Peru, the top three species in one of the concession blocks are ochavaja, machimango and zapote, which collectively account for approximately 45% of the total volume, while the top three species in the other concession block are estoraque, ochavaja and ana caspi, which account for approximately 33% of the total volume.

From those 32 species of trees, in accordance with the provisions of Supreme Decree 043-2006-AG, the following six species are included in the “Categorization of Endangered Species of Wild Flora”: cedro (vulnerable), copaiba (vulnerable), lupuna (near threatened), mashonaste (near threatened), tahuari (vulnerable), and zapote (critically endangered). The extraction of these species is prohibited, except where general forestry management plans have been duly approved, in which such species have been expressly contemplated.

In preparation for the commencement of commercial logging activities in our Peru forests, we have recruited three local forest engineers to take charge of the overall management. They have an

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average of more than 15 years' experience in forest management in Peru. We plan to engage independent third-party contractors to conduct logging activities and are in talks with several candidates. As our Peru forests are natural forests, the average timber age of the standing timber therein is unknown to us. However, we estimate the trees in our Peru forests are on average 30 years old judging by their size. We plan to conduct a annual survey on approximately 5% of the forests before the commencement of logging activities. During the survey, we plan to give a tab number to the trees that we plan to log. We also plan to engage independent third-party sawmills to cut felled logs. To transport felled logs to the sawmills, we plan to engage the trucking and barging services which are readily available from our forests to the sawmills. With respect to reforestation, in order to encourage natural regeneration in the harvested forest areas, we plan to conduct silvicultural treatments, such as selective tree harvesting, retention of a small percentage of trees as seeding trees and general cleaning of clearing areas. See "Appendix VIII — Summary of Principal PRC and Peruvian Legal and Regulatory Provision — Peruvian Laws and Regulations — Reforestation."

We plan to start the commercial logging of our forests in Yunnan and Peru in the second half of 2011 and by the end of June 2011, respectively. We will engage independent third-party local contractors to manage the logging, transporting and handling of the logistic activities for both our Yunnan and Peru forests. We are in close discussion with an independent third-party local contractor, who has several years of experience in conducting local logging activities, to engage it as our operator for our Peru forest. We have no prior experience in managing forest assets. To ensure our forest assets will be run in an effective and efficient manner, we have recruited a team of three experienced in-house forest engineers for each of our Yunnan and Peru forests. The team of in-house forest engineers have an average experience of 20 years in Yunnan and 15 years in Peru forestry sectors. The team of in-house engineers will manage and monitor the day-to-day operation as well as compliance matters for our Yunnan and Peru forests. We believe that our internal plan to both forests will help us adequately maintain effective and sustainable forestry operations. In this regard, we will follow all reforestation requirements set forth in any relevant logging permits required for commercial logging in both forests, as well as any required management or operational plans.

TRADING BUSINESS

Flooring Trading

Substantially all of the flooring products that we manufacture are sold in China. Outside of China, our wholly-owned subsidiary located in the U.S., Nature Flooring Industries, Inc., purchases laminated flooring, engineered flooring and solid wood flooring from our own factories, authorized manufacturers and other flooring manufacturing companies, and then sell these products under our brands to customers in overseas markets, mostly flooring distributors in the U.S. In 2008, 2009 and 2010, revenues derived from our flooring trading business accounted for approximately 5.7%, 5.7% and 4.0% of our total revenues, respectively. During the same periods, revenues derived from trading of the flooring products in the U.S. accounted for approximately 2.5%, 3.9% and 3.3% of our total revenues, respectively.

Timber Trading

Through our wholly-owned subsidiaries located in Macau and Hong Kong, YS Nature International Trading Co., Ltd. and Cheerway Industrial Limited, we also engage in the timber trading

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business. We purchase timber from overseas wood dealers and sell the timber to a variety of clients in China, including authorized manufacturers and other wood products manufacturers. During the Track Record Period, we did not sell timber in the U.S. In 2008, 2009 and 2010, revenues derived from our timber trading business accounted for approximately 9.2%, 4.7% and 16.5% of our total revenues, respectively.

Largest Customers

For the years ended December 31, 2008, 2009 and 2010, the percentage of revenue attributable to our largest customer amounted to approximately 13.7%, 5.3% and 6.8% of our total revenues. The percentage of revenue attributable to our five largest customers was less than 30% of our total revenues for the years ended December 31, 2008, 2009 and 2010. As of the Latest Practicable Date, none of our Directors, their associates or any of our shareholders holding more than 5% of our issued share capital had any interest in or was associated with our five largest customers.

Largest Raw Materials Suppliers

In 2008, 2009 and 2010, purchases of raw materials attributable to our five largest suppliers amounted to approximately 44.5%, 37.0% and 20.5%, respectively, of our total cost of sales in each period. They are primarily reputable manufacturers of fiberboards and three paper layers located in the PRC for our production of laminated flooring as well as overseas suppliers located in Peru for our timber trading business. As of December 31, 2008, 2009 and 2010, we had an average of 2.9, 3.6 and 4.1 years of relationship with our five largest suppliers in 2008, 2009 and 2010, respectively. For the same periods, raw material purchases attributable to our largest supplier amounted to approximately 18.0%, 17.7% and 7.5%, respectively, of our total costs of sales. As of the Latest Practicable Date, none of our Directors, their associates or any of our Shareholders holding more than 5% of our issued share capital had any interest in our five largest external suppliers, other than that our Shareholder, IFC, held approximately 9.7% equity interest in the holding company of one of such suppliers.

ENVIRONMENTAL AND SAFETY MATTERS

Environmental Compliance

We are subject to environmental regulations of the PRC and other relevant jurisdictions where we conduct our business. These environmental regulations relate to, among other things, pollution, noise emissions, hazardous substances, water and waste discharge, contamination, forest protection and other environmental matters.

As a wood flooring company, we generate waste water and sawdust during the production process. For waste water, we generally arrange for it to be discharged to the waste water treatment facilities established by the local government. For saw dust, we have facilities in place to collect it for use as fuel.

During the Track Record Period, no material environmental complaints or administrative penalties was made against or imposed on us.

Environmental Initiatives

We are committed to promoting sustainable development by integrating environmentally-friendly initiatives into our corporate strategies. In addition, we are obligated to meet certain environmental protection standard under our agreements with our shareholder, IFC, in connection with its investment in us in 2008. See “History and Development — Investment by MS Flooring, IFC and Headland HAV3.” We have established certain initiatives with the goal of achieving more environmentally responsible and sustainable operations. Such initiatives, as described below, were all adopted on a voluntary basis and not required by laws or regulations and were driven by our commitment to sustainable development. We do not expect the costs or expenses incurred in connection with these initiatives to have a material effect on our operations and financial conditions.

We have established a “Social and Environmental Responsibility Action Team” (社會環保行動小組), led by our Chairman, Mr. Se Hok Pan, dedicated to design and implement environmental protection measures.

We are a founding member of the Global Forest Trade Network (China) (GFTN-China), a program established by the WWF to promote forest product purchasing from legitimate sources and responsible forest management. Since our joining of GFTN-China in 2005, we have received various trainings and information from GFTN-China relating to chain of custody management to ensure legitimate timber sourcing and forest management in compliance with FSC standard. Although we have not obtained FSC certification for our flooring products themselves, by working with FSC certified suppliers we can ensure that our products are manufactured only with FSC-certified materials.

In addition, we have taken and plan to continue to take the following measures to reduce our green house gas emission: (i) actively participating in tree planting initiatives; (ii) improving the efficiency of our production facilities through technology innovation; and (iii) reducing the usage of electrical power and water through measures such as providing our staff with training relating to energy saving. In 2002, China approved the Kyoto Protocol, an international environmental treaty, which aims at global climate stability and reducing green house gas emissions. Accordingly, China has promulgated relevant environmental laws and regulations, including but not limited to the Environmental Protection Law (環境保護法), the Forestry Law (森林法) and the Energy Conservation Law (節約能源法). Since 1991 China has also been a member of Montreal Protocol, an international treaty aiming to protect the ozone layer. Accordingly, the State Council promulgated the Regulations on the Administration of the Ozone-layer-depleting Substances (消耗臭氧層物質管理條例) and the corresponding List of Controlled Ozone-depleting Substances in China (中國受控消耗臭氧層物質清單) in 2010. We have complied with all such PRC environmental regulations in all material respects and will continue our efforts in controlling the green house gas emissions and committing to sustainable development.

With respect to our forest assets, we are committed to responsible and sustainable forest management. For our forests in Peru, we use “FSC Principles and Criteria for Forest Stewardship” (FSC-STD-01-001), or FSC Principles, as the guideline. The FSC Principles provide detailed requirements in respect of the ten areas of forest management, including compliance with law, community relations and workers’ rights, efficient use of forest’s products, attention to environmental impact, formulation of management plan, monitoring and assessment of forest conditions and management of plantations. In 2009, we obtained FSC’s forest management certification in respect of

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our Peru forests which evidences that our management of Peru forests is in compliance with the FSC Principles in all material respects.

Labor Safety Matters

We are also subject to safety regulations of the PRC and other relevant jurisdictions where we carry out our business. Applicable laws include but are not limited to the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the Regulation of Insurance for Labor Injury (工傷保險條例) and the Unemployment Insurance Law (失業保險條例).

In order to ensure the safety of our employees, we implement operational procedures and safety standards for our manufacturing process. We provide our employees with occupational safety education and training to enhance their awareness of safety issues. In particular, for employees whose positions involve exposure to hazardous raw materials, we have special safety policies in place and closely monitor the usage of such raw materials in our manufacturing process. We also carry out equipment maintenance on a regular basis to ensure their safe operation. The Directors believe that we have substantially complied with applicable safety regulations of the PRC and other relevant jurisdictions where we conduct our business and during the Track Record Period, there were no work-safety related accidents or complaints which had materially and adversely affected our operations. We will continue our efforts in ensuring the safety of our employees and compliance with relevant regulations.

In 2008, 2009 and 2010, we incurred expenses in respect of environmental and work-safety compliance matters of approximately RMB0.2 million, RMB3.9 million and RMB2.6 million, respectively.

COMPETITION

Consumer demand in China for wood flooring products has grown significantly in recent years. We compete with international and domestic flooring companies on, among other things, brand recognition in the flooring market, market share, price, product variety, product design, product features and quality, product safety, marketing and promotion, distribution channels, research and development, time-to-market, customer service and access to capital. This competition has led to increasing market concentration, with a selected number of leading brands continuing to gain market share over less established, lower-end brands.

We became a market leader in laminated flooring market during the Track Record Period. We began selling laminated flooring in 2005. Within only a few years, our ranking in the laminated flooring market, in terms of both annual retail sales volume and annual retain sales value, improved from fifth in 2007 to second in 2008, and second in 2009. The sales of our laminated flooring products have experienced strong growth from 2007 to 2009, with a volume increased at a CAGR of 45.8%, compared to the industry growth of 4.4%.

We believe that our market position in the wood flooring market will be further strengthened by the increasing demand for laminated flooring products. According to Frost & Sullivan, even though

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solid wood flooring has been the largest product segment in terms of annual retail sales value during the past five years, the demand for laminated flooring products is increasing. In 2009, 40.9% of the annual retail sales value was from solid wood flooring 22.8% from engineered flooring and 33.7% from laminated flooring. Frost & Sullivan forecasts that from 2009 to 2014, the growth rate of laminated flooring is expected to grow at a CAGR of 26.8%, which is faster than the forecasted growth of solid wood and engineered flooring. As a result, laminated flooring is expected to become the largest product segment in the wood flooring market by 2014 with a 45.6% market share, solid wood flooring being second largest with a 31.2% market share, and engineered wood flooring being third largest with a 21.0% market share, each in terms of retail sales value. Engineered flooring products is expected to grow continuously with a CAGR of 17.4% in terms of annual retail sales value during 2009 and 2014, mainly due to the wider use of underfloor heating system, rising trend of furnished units, and good substitute for solid wood flooring. The solid wood flooring market is expected to grow continuously with a CAGR of 13.0% in terms of annual retail sales value during 2009 and 2014, mainly due to lifting purchasing power of high to middle income class, environmentally friendly product property, and RMB appreciation trend.

Both of us and authorized manufacturers manufacture our branded engineered flooring products. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively. As authorized manufacturers are obligated to sell our branded products to our exclusive distributors to whom we sell products manufactured at our own factories, there may be competition between us and authorized manufacturers in selling products to the same group of distributors. Such competition may relate to, among other factors, the pricing of the products.

We had a sales network of over 2,900 retail stores across China as of December 31, 2010. We have enjoyed economies of scale in production, and is likely to have higher bargain power in purchase. We have strong sourcing ability in supplies from different countries and bargaining power due to the scale of operations and through bulk purchases. In order to minimize the risk of over reliance on a single or limited number of suppliers, we have retained at least two suppliers for each principal raw material. If there is any significant increase in the cost of a certain raw material, we may consider shifting to use an alternative raw material. In case there is no such alternative material, we may pass the increases of raw material costs, to the extent possible, to our customers. According to Frost & Sullivan consumer survey, customers are willing to pay a premium for branded products and quality products. We believe that even if we pass on certain cost of raw materials to our customers, our consumers are still willing to pay more due to good brand and quality of our products. Frost & Sullivan's consumer survey also shows that the highest percentage of participants in the survey named our brand when asked which wood flooring brand first came to mind.

According to Frost & Sullivan, in 2009, we had the largest market share of 6.5% in terms of annual retail sales value of our branded products, while our competitors "Power Dekor" (聖象), "Sunyard" (世友), "Ark Floors" (安信) and "Vohringer" (菲林格爾) had a market share of 5.6%, 2.3%, 2.3% and 1.9%, respectively. In 2009, the market share of our competitors together with us (in terms of annual retail sales value of branded products) contributed 19.5%, 17.3% and 31.3%, of the solid wood

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flooring segment, multi-layered engineered flooring segment and laminated flooring segment, respectively. According to the Frost & Sullivan Report, during the forecast period, the wood flooring industry is expected to continue consolidating, and established market leaders are positioned to gain additional market share by leveraging their well-recognized brands, extensive distribution network, broad product offerings and ability to provide more reliable after-sales service as compared to smaller industry players. See “Industry Overview.”

During the Track Record Period, the price volatility in wood and timber did not materially affect our competitiveness in the market, primarily because we have adopted various measures to deal with the price volatility in wood and timber and control raw material, including:

- through partnering with authorized manufacturers to manufacture all of our branded solid wood flooring and a portion of our branded engineered flooring, we are able to reduce our exposure to inventory backlog and price fluctuations in raw materials and finished products, which are borne by our authorized manufacturers;
- we strive to minimize excess levels of raw materials and finished goods in our inventory while maintaining our ability to supply the demands of our distributors and customers. In this regard, we have maintained a certain level of inventories of finished products, as well as procure raw materials according to a production plan based on our estimate of distributor demand; and
- we have taken upstream integration to wood and timber resources. To secure a stable supply of high quality timber and also to reduce the impact of timber price volatility to our authorized manufacturers in connection with their manufacturing of solid wood flooring, in 2009 we began to selectively acquire strategic upstream forest assets, in Yunnan Province, China and Loreto Province, Peru.

INSURANCE

We maintain different types of insurance policies, including product liability insurance, transport accident insurance, vehicle insurance and property casualty insurance. We maintain insurance coverage in amounts that we believe are consistent with our risk of loss and the customary practice in the industry. As of the Latest Practical Date, we had not received any material insurance claims against us.

INTELLECTUAL PROPERTIES

Our intellectual property rights, especially those associated with our brands, are of fundamental importance to our business.

We undertake a pro-active approach to manage our intellectual property portfolio. In addition to seeking and maintaining proper registration of our trademarks, we closely monitor and collect information on counterfeit products from various sources, including our distributors and suppliers. We also require our distributors and authorized manufacturers to protect our trademarks and to notify us immediately upon discovery of a potential infringement of our trademarks. We take legal actions

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where necessary and closely cooperate with local authorities to enforce our relevant intellectual property rights.

As of the Latest Practicable Date, we had 75 registered trademarks and 148 registration applications which have been accepted for consideration in China. We also had 14 registered trademarks and 5 registration applications which have been accepted for consideration outside China. We also hold patents on certain products, systems and designs. As of the Latest Practicable Date, we had 43 patents and 31 patent applications which have been accepted for consideration in China. In addition, as of the Latest Practicable Date, we had registered 42 domain names in China and other jurisdictions.

For details of our intellectual property rights, see “Appendix IX — Statutory and General Information — Further Information About the Business of Our Company — Our intellectual property rights.”

PROPERTIES

As of the Latest Practicable Date, we held, leased and occupied certain properties in China, Hong Kong, Macau and Peru.

Owned Properties

As of the Latest Practicable Date, we owned five parcels of land with an aggregate site area of approximately 441,403 sq.m. in China, for use as production facilities, warehouses or offices. We have obtained the land use rights certificates for all such five parcels of land. In addition, we owned 86 parcels of land with an aggregate site area of approximately 66,682 mu (or about 44,454,733 sq.m.) in Yunnan Province, China, for forestry purposes. We have obtained the forestry land use rights certificates for all such 86 parcels of land.

As of the Latest Practicable Date, we owned 35 buildings with a total gross floor area of approximately 114,230 sq.m. in China. We have obtained building ownership certificates for 24 buildings with a total gross floor area of 112,210 sq.m. We have not obtained building ownership certificates for 11 buildings with a total gross floor area of 2,020 sq.m. These 11 buildings are primarily used as offices or staff canteen of Zhangjiagang Nature. Our PRC legal advisors, Haiwen & Partners, have advised that, with respect to the title defect of these 11 buildings, the relevant authority may order us to rectify the title defect within a prescribed period, demolish the buildings and/or impose a fine of up to 10% of the construction cost of these buildings. We expect the fine imposed, if any, will not exceed RMB300,000 in the aggregate. We are in the process of applying for the relevant title certificates. As of the Latest Practical Date, no regulatory inquires were received or fines were imposed with respect to the title defect of these 11 buildings.

Properties under Construction

As of the Latest Practicable Date, we held one building under construction with an estimated gross floor area of approximately 9,629 sq.m.

Leased Properties

As of the Latest Practicable Date, we leased 30 properties with an aggregate leasable area of approximately 41,310 sq.m. in China, for use as production facilities, warehouses, offices or staff quarters. According to the opinion given by our PRC legal advisors, Haiwen & Partners, the relevant lessors have provided title certificates or consent from the property owners to lease 19 properties, representing a total leasable area of approximately 18,451 sq.m. We have not been provided with the relevant title ownership certificates or documents evidencing the consent of properties owners for the leasing of 11 properties, representing a total leasable area of approximately 22,859 sq.m. These 11 properties are primarily used as warehouses, production facilities and offices of Zhongshan Nature, Guangdong Yingran and Kunshan Nature. Among these 11 properties, there are four properties representing a total leasable area of approximately 15,400 sq.m. with respect to which our PRC legal advisors, Haiwen & Partners, have advised that the relevant lessors are not entitled to lease the relevant properties, because the underlying land of these properties are collectively-owned or state-owned allocated land which is not permitted to be used for non-agricultural purposes or leased without government approvals under the PRC law. The lease agreements in respect of these four properties are therefore, as advised by Haiwen & Partners, not valid and our leasehold interests under these agreements are not be protected by PRC laws and regulations. For the remaining seven properties representing leasable area of approximately 7,459 sq.m., Haiwen & Partners have advised that because the lessors are not able to provide the relevant title documents, there exists uncertainties as to whether the relevant lease agreements are valid and our leasehold interests under such agreements are protected by PRC laws and regulations. However, we believe that these 11 properties are not crucial to our operations, whether on an individual or an aggregated basis. We also believe that, if we are forced to relocate our operations or staff in the affected properties, we can find alternative locations and complete relocation on a fairly short notice and at an aggregate cost of no more than RMB3 million.

As of the Latest Practicable Date, we leased two properties with an aggregate leasable area of approximately 160 sq.m. in Peru for office and sawmill purposes.

As of the Latest Practicable Date, we also leased a property in Hong Kong and Macau, with a gross floor area of approximately 231 sq.m. and 352 sq.m., respectively. For details of our properties, see “Appendix IV — Property Valuation.”

Properties Occupied by us in Peru

As of the Latest Practicable Date, we have obtained relevant concession rights with respect to two parcels of land located in Loreto Province, Peru, with an aggregate site area of approximately 46,347 hectares. See “— Our Forests.”

LITIGATION AND COMPLIANCE

From time to time, we may be a party to various legal proceedings. During the Track Record Period, we were not a party to any material legal proceedings. We are also currently not a party to any pending legal proceedings that will have a material adverse effect on our business, financial condition or results of operations.

As confirmed by our PRC legal advisors, Haiwen & Partners, and our Peru legal advisors, Muñiz, Ramírez, Pérez-Taiman & Olaya, during the Track Record Period and as of the Latest

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Practicable Date, we had complied with all applicable PRC and Peru laws and regulations in all material respects, including those relating to environmental protection, forestry and work safety matters, and had obtained all material permits and licenses for our business operation in the PRC and Peru except for those relating to our forest assets for which we are in the process of application and stated in this prospectus. Our Directors also confirm that, during the Track Record Period and as of the Latest Practicable Date, we had, in all material respects, complied with all applicable laws and regulations of the other jurisdictions where we conduct our business, including the U.S. and had obtained all material permits and licenses for our business operation in the relevant jurisdictions.

Going forwards, we will ensure that we comply with the applicable laws and regulations of the jurisdictions where we conduct our business. To ensure on-going compliance with regulatory requirements after the Listing Date, we plan to (i) expand the working scope of our internal legal department to include supervision of our on-going regulatory compliance related matters, (ii) provide our management and employees with various training relating to applicable regulatory requirements, (iii) maintain dialogue with relevant authorities to ensure that we are up to date on our applicable requirements, new regulatory developments and any potential issues relating to our operations, and (iv) appoint professional legal advisors to act as our regular legal counsel and advise us on various compliance matters.