You should read this section in conjunction with our audited consolidated financial statements, including the notes thereto, as set forth in the Accountants' Report in Appendix I to this prospectus. Our audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which may differ in material respects from generally accepted accounting principles in other jurisdictions. The following discussion and analysis contains certain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed in such forward-looking statements as a result of various factors, including those set forth in "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

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. Our revenues for the year ended December 31, 2008, 2009 and 2010 was RMB885.4 million, RMB990.5 million and RMB1,623.9 million, respectively. Our profit attributable to equity shareholders of the Company for the same periods was RMB146.0 million, RMB223.8 million and RMB340.1 million, respectively.

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, respectively, while those manufactured by authorized manufacturers accounted for 37.7%, 31.4% and 30.3% for the same periods, 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.

BASIS OF PRESENTATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on July 27, 2007. Pursuant to the completion of the Reorganization in May 2008, our Company became the holding company of the companies now comprising our Group. For more information on the Reorganization, see "History and Development — Reorganization." Since our Company and its subsidiaries were under common control of Mr. Se Hok Pan and Ms. Un Son I both before and after the Reorganization, we have accounted for the Reorganization as a business combination under common control. Accordingly, our audited consolidated financial statements as set forth in the Accountants' Report in Appendix I to this prospectus have been prepared using the principles of merger accounting, under which our consolidated results of operations, cash flows and financial position are presented as if all the companies and businesses comprising our Group have been in our Group since the beginning of the Track Record Period or since their respective dates of incorporation or registration, whichever is later. All significant intra-group transactions and balances have been eliminated on consolidation. See "Appendix I — Accountants' Report — Section A."

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by numerous factors, including the following:

Growth of Our Distribution Network

Our branded products are manufactured at our own factories or by authorized manufacturers and are primarily sold to our exclusive distributors on a wholesale basis, who in turn primarily sell these products to retail consumers through managed Retail Stores which are operated by our distributors. Accordingly, our revenues from manufacturing and sale of flooring products as well as trademark and distribution network usage fees earned from authorized manufacturers are directly affected by the number of our distributors and Retail Stores.

Set forth below is certain information relating to our revenues and the number of our distributors and Retail Stores as of the dates and for the periods indicated:

	As of and for the Year Ended December 31,		
	2008	2009	2010
Number of our distributors	1,107	1,379	2,107
Number of Retail Stores	1,266	1,936	2,901
Revenues (RMB in thousands)[1]	753,084	886,900	1,290,832

Note:

(1) Revenues include revenues from manufacturing and sale of flooring products and trademark and distribution network usage fees, but exclude revenues from trading of timber and flooring products.

We plan to further expand our distribution network and Retail Store presence by enhancing our distribution network's presence and performance in our existing markets and expanding into new markets in China, including county-level cities and towns. Accordingly, our results of operations will be affected, among others, by our ability to expand our distribution network by attracting more distributors, the ability of our distributors to increase the number of Retail Stores and the business performance of Retail Stores. All of these factors, in turn, depend on our ability to effectively manage our distribution network by closely supervising the activities of our distributors and Retail Stores, while also providing our distributors with support, training and incentives to grow their business.

Our Arrangement with Authorized Manufacturers

Our branded products are manufactured through a combination of our own factories and 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. Authorized manufacturers manufacture only our branded products and must sell these branded products exclusively to our distributors, for which we charge trademark and distribution network usage fees. Trademark and distribution network usage fees are calculated based on authorized manufacturers' committed annual production capacity, actual output, sales volume and/or revenues. For further information on trademark and distribution network usage fees, see "— Description of selected components of results of operations." Any change in our arrangement with authorized manufacturers, in particular any change in the above fee structure, may affect our results of operations. Any such potential change depends on a number of factors, such as the level of our brand recognition, the effectiveness of our distribution network, competition, negotiation, the price and availability of raw materials and our development strategies for authorized manufacturers.

In 2008, 2009 and 2010, our arrangement with authorized manufacturers generated 17.3%, 16.2% and 12.4% of our total revenues, respectively, and contributed 44.1%, 44.1% and 39.3% to our total gross profit, respectively. We believe this arrangement has allowed us to generate higher gross profit margins with lower operating risks compared to a manufacturing model that relies solely on our own manufacturing. This is due to the fact that, for our arrangement with authorized manufacturers, we derive revenues and profit from the trademark and distribution network usage fees we charge, but incur minimum cost of sales and operating costs because the authorized manufacturers are responsible for their own raw materials procurement and most of the operating costs, although we have started to engage a third party logistics provider to deliver products for authorized manufacturers. Our expenses related to this arrangement, such as those incurred for brand promotion and distribution network management, are categorized as distribution costs.

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 operation in April 2011. We plan to expand our network of authorized manufacturers to manufacture an increasing proportion of our branded products across our portfolio while at the same time expanding and upgrading certain of our own factories in order to maintain a strategic mix of manufacturing capacity. We expect that the implementation of this strategy will affect our results of operations. The distribution of our revenues and profit between business segments may change resulting from this strategy. In addition, we may experience an increase in our level of trade receivables as the number of authorized manufacturers increases and we expect more fee payments which are based on the credit terms of 120-180 days which we typically grant authorized manufacturers.

Pricing

We set uniform wholesale prices for products that our own factories sell to our distributors. For products manufactured by authorized manufacturers, we work closely with authorized manufacturers to determine the wholesale prices of the products that they sell to our distributors. However, authorized manufacturers have the discretion to determine the final wholesale prices of their products according to their own operations. The wholesale prices of our branded products are set based on numerous factors, including raw materials costs, other operating costs, market positioning, competition, supply and demand conditions for our branded products, pricing strategies, bargaining power over our distributors and inflation. If we and authorized manufacturers adjust the wholesale prices of our branded products for any of these reasons, the resulting change in the retail price will affect the market demand for, and the sales of, our branded products. As a result, our revenues, whether derived from manufacturing and sale of flooring products or from trademark and distribution network usage fees, will be affected.

Fluctuations in Raw Materials Costs

Raw materials costs represent the largest component of our cost of sales in the manufacturing and sale of our branded products. For the years ended December 31, 2008, 2009 and 2010, our raw materials costs for our own manufacturing activities, as a percentage of cost of sales for manufacturing and sale of flooring products, were 82.2%, 75.0% and 77.4%, respectively. The key raw materials used in the production of our branded products include timber, veneers, fiberboards and plywood. Raw materials costs, especially timber, are affected by numerous factors, such as market demand, weather conditions that affect the growth and harvest of forests, and government policies on logging activities and timber export. Fluctuations in raw materials costs, as well as our ability to pass on any increase in such costs to our customers, therefore, affect our cost of sales and gross profit margin.

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. We believe we are still able to sell our branded products by leveraging our leading brand, quality products and services, as well as our comprehensive product portfolio. However, we may not always be able to do so, in which case our results of operations will be affected.

In addition, as all of our branded solid wood flooring and a portion of our branded engineered flooring are manufactured by authorized manufacturers, fluctuations in raw materials costs, especially timber price, may impact the sales and output of authorized manufacturers, which in turn could affect the trademark and distribution network usage fees we earn from authorized manufacturers and in turn our results of operations.

In order to secure more effective control of our raw materials, we have acquired certain forests assets in Peru and China. See "Business — Raw Materials Supply — Our Forest." As part of our strategy, we plan to acquire more strategic upstream forests 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. Accordingly, our ability to manage our existing forests and locate and acquire new forests assets may also affect the supply of raw materials for our branded products, which in turn could affect our results of operations. In addition, we expect to incur more capital expenditures in connection with our forest acquisitions, which may affect our cash flow. Furthermore, the changes in fair value of our forests may affect our operating income. See "— Changes in Fair Value of Our Biological Assets" below.

Changes in Fair Value of Our Biological Assets

We have acquired certain forest assets in Peru and China. The valuation of fair value of our biological assets, namely forest assets, was conducted by Pöyry. In 2009, in connection with our forest assets in Peru which we acquired at a consideration of approximately RMB19.0 million, we recorded a net change in fair value of biological assets of RMB81.9 million, which accounted for approximately 24.6% of our profit from operations in 2009. In 2010, in connection with our forest assets in China which we acquired at a consideration of approximately RMB41.5 million and our forest assets in Peru, we recorded a net change in fair value of biological assets of RMB106.8 million, which accounted for approximately 24.1% of our profit from operations in 2010. The net change in fair value 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 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.

As part of our strategy, we may acquire additional forest assets in the future. We expect the changes in fair value of our forest assets may continuously affect our results of operations. The evaluation of fair value of our forests assets involves the exercise of professional judgment and employs certain bases and assumptions. In determining the fair value of our forests assets, Pöyry adopted a net present value approach whereby projected future net cash flows, calculated based on the international timber log prices, were discounted according to the harvest plans to provide a current market value of the forest assets. Pöyry's valuation of our forest assets in Peru has considered the timber located within the cushioning area of the Pacaya Samiria National Reserve, since, pursuant to an opinion issued by the National Service of Natural Areas Protected by the State, 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. For further information regarding the cushioning area of the Pacaya Samiria National Reserve, see "Business — Our Forests — Peru Forests." The discount rate adopted by Pöyry for our forest assets in Peru and China was 12.0% and 11.5%, respectively. These discount rates were determined by reference to discount rates of companies that carry out similar business activities, weighted average cost of capital analysis, the implied discount rate of forest transactions over a period of time, as well as the risks associated with operating a venture in Peru and China. See "— Biological Assets."

Any change in international timber log prices or the foregoing assumptions or valuation methodologies, including the discount rate, may affect the fair value of our forest assets significantly. In addition, the fair value of our forest assets may have been higher or lower if Pöyry had used a different approach of evaluation based on different assumptions or estimates. Changes in the fair value of our forest assets could result in significant fluctuations in our profit from operations.

Changes in Consumer Preferences

Consumer preferences may change from time to time due to numerous reasons, such as changes in general economic conditions, the level of disposal income and lifestyle of consumers. Changes in consumer preferences for different categories of wood flooring products may affect our results of operations. We manufacture and sell laminated flooring and engineered flooring, and authorized manufacturers manufacture our branded solid wood flooring and engineered flooring and sell them exclusively to our distributors for which we charge trademark and distribution network usage fees. Laminated flooring and engineered flooring we manufacture have different contributions to gross profit margins. Our arrangement with authorized manufacturers generate a higher gross profit margin compared to operations based on our own manufacturing. Accordingly, if we adjust our own production or our arrangement with authorized manufacturers within the different categories of wood flooring products in response to, or in anticipation of, changes in consumer preferences, our results of operations may be affected.

China's Economic Conditions

We conduct most of our operations in China. The level of demand for our branded products (including those manufactured by authorized manufactures) largely depends on rising disposable income of Chinese consumers, continued urbanization driving increased demand for housing, the PRC government support and initiatives in housing, increasing renovation activities, and consumer preferences driving increasing penetration of wood flooring. See "Industry Overview — Key Drivers of Growth for China's Wood Flooring Market." Changes in these key drivers have resulted, and may continue to result, in changes in market demand for our branded products, which significantly affect our business, financial condition and results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting policies and estimates. The methods, estimates and judgments that we use in applying our accounting policies may have a significant impact on our results of operations as reported in our audited consolidated financial statements included elsewhere in this prospectus. Some of the accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies in accordance with IFRS that we believe are both important to the presentation of our financial results and involve the need to make estimates and judgments about the effect of matters that are inherently uncertain. We also have other policies that we consider to be key accounting policies, which are set forth in detail in Note C to "Appendix I — Accountants' Report" to this prospectus.

Revenue Recognition

Revenues from manufacturing and sale of flooring products in the course of ordinary business are measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenues are recognized when persuasive evidence exists, usually in the form of an executed sales agreement that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenues can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenues as the sales are recognized. Based on the foregoing policies, we generally recognize revenues from manufacturing and sale of flooring products when the products are dispatched from our warehouse.

Revenues from trademark and distribution network usage fees are accrued in accordance with the terms of the relevant agreements with reference to the production output and sales volume of the manufacturers of the wood flooring products.

Revenues from trading of timber and flooring products in the ordinary business are recognized by using the same measure as those for manufacturing and sale of flooring products. For trading of timber and flooring products, transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port of the seller. Generally for such products the buyer has no right of return.

Compound Financial Instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to voting preference share capital at the option of the holder upon the occurrence of certain events, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to preference share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

Fair Value of Biological Assets

Biological assets are valued at fair value less estimated costs to sell, with any change therein recognized in profit or loss. Costs to sell include all costs that would be necessary to sell the assets, excluding costs necessary to get the assets to market. In determining the fair value of the biological assets, the professional valuers have applied the net present value approach which requires a number of key assumptions and estimates to be made such as discount rate, log prices, harvest profile, transportation and processing costs, growth, harvesting and establishment. Any changes in the estimates may affect the fair value of the biological assets significantly. The professional valuers and management review the assumptions and estimates periodically to identify any significant change in the fair value of biological assets.

Net Realizable Value of Inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and distribution expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature, which could change significantly as a result of actions of our competitors in response to changes in market conditions. Our management reassesses these estimates at the balance sheet dates to ensure our inventories are shown at the lower of cost and net realizable value.

Impairment

In considering the impairment losses that may be required for certain non-financial assets, other than biological assets, inventories and deferred tax assets, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of turnover and amount of operating costs. Our management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs.

Impairment losses for bad and doubtful debts are assessed and provided based on the directors' regular review of aging analysis and evaluation of collectability. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual client. An increase or decrease in impairment losses could affect the net profit or loss in future years.

Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Our management reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Income Tax

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. Our management carefully evaluates tax implications of transactions, and tax provisions are set up accordingly. The tax treatment of these transactions is reconsidered periodically to take into account changes in tax legislations. Deferred tax assets are recognized for deductible temporary differences. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized, our management's judgment is required to assess the probability of future taxable profits.

Our management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Equity-settled Share-based Compensation

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial option pricing model, considering the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognized in prior periods is charged / credited to profit or loss for the period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the capital reserve until either the option is exercised when it is transferred to the share premium account or the option expires when it is released directly to retained profits.

CONSOLIDATED RESULTS OF OPERATIONS

Set forth below is information relating to certain income and expense items from our consolidated statements of comprehensive income for the periods indicated:

	For the Year Ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages and earnings per share)					
Revenues	**885,409**	**100.0%**	**990,462**	**100.0%**	**1,623,908**	**100.0%**
Cost of sales	(545,815)	(61.6)	(631,835)	(63.8)	(1,116,205)	(68.7)
Gross profit	**339,594**	**38.4**	**358,627**	**36.2**	**507,703**	**31.3**
Other net income	400	—	749	0.1	7,976	0.5
Net change in fair value of biological assets	—	—	81,869	8.3	106,798	6.6
Distribution costs	(59,352)	(6.7)	(55,674)	(5.6)	(95,798)	(5.9)
Administrative expenses	(76,428)	(8.6)	(50,134)	(5.1)	(81,066)	(5.0)
Other operating expenses	(809)	(0.1)	(2,644)	(0.3)	(2,727)	(0.2)
Profit from operations	**203,405**	**23.0**	**332,793**	**33.6**	**442,886**	**27.3**
Finance income	4,069	0.5	4,096	0.4	2,823	0.2
Finance costs	(50,970)	(5.8)	(74,866)	(7.5)	(42,017)	(2.6)
Net finance costs	**(46,901)**	**(5.3)**	**(70,770)**	**(7.1)**	**(39,194)**	**(2.4)**
Profit before taxation	**156,504**	**17.7**	**262,023**	**26.5**	**403,692**	**24.9**
Income tax	(10,540)	(1.2)	(38,197)	(3.9)	(63,555)	(4.0)
Profit attributable to equity shareholders of the Company for the year	**145,964**	**16.5**	**223,826**	**22.6**	**340,137**	**20.9**
Earnings per share:						
Basic (RMB)	2.32	—	3.20	—	3.78	—
Diluted (RMB)	2.17	—	2.73	—	3.31	—
Profit for the year	**145,964**	**16.5**	**223,826**	**22.6**	**340,137**	**20.9**
Other comprehensive income for the year						
Exchange differences on translation of financial statements of entities outside the PRC	11,349	1.3	(1,928)	(0.2)	(1,721)	(0.1)
Total comprehensive income attributable to equity shareholders of the Company for the year	**157,313**	**17.8%**	**221,898**	**22.4%**	**338,416**	**20.8%**

DESCRIPTION OF SELECTED COMPONENTS OF RESULTS OF OPERATIONS

Revenues

We generate all revenues from three business segments: (i) manufacturing and sale of flooring products, (ii) trademark and distribution network usage fees; and (iii) trading of timber and flooring products.

"Manufacturing and sale of flooring products" represent the revenues generated from the sale of laminated flooring, engineered flooring and other products that we manufacture at our own factories.

"Trademark and distribution network usage fees" represent the trademark licensing fees and distribution network usage fees for which we charge authorized manufacturers in connection with their rights to label all the products they manufacture with our trademark brands and sell these products exclusively and directly to the distributors in our distribution network. Trademark and distribution network usage fees are typically invoiced on a monthly basis, consisting of (i) sales volume based fee; (ii) actual output based fee; and (iii) committed annual production capacity based fee. Trademark and distribution network usage fees to charge from two joint venture authorized manufacturers which commenced operations in April 2011 are based on revenues.

"Trading of timber and flooring products" represent the revenues generated primarily from flooring trading and timber trading. For flooring trading, 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. 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.

Set forth below are the revenues generated from our business segments and percentages of total revenues for the periods indicated:

	For the Year Ended December 31,					
	2008		2009		2010	
	Revenues	%	Revenues	%	Revenues	%
	(RMB in thousands, except percentages)					
Manufacturing and sale of flooring products	599,710	67.7%	726,717	73.3%	1,088,766	67.1%
Trademark and distribution network usage fees	153,374	17.3	160,183	16.2	202,066	12.4
Trading of timber and flooring products	132,325	15.0	103,562	10.5	333,076	20.5
Total	**885,409**	**100.0%**	**990,462**	**100.0%**	**1,623,908**	**100.0%**

Cost of Sales

Cost of sales for manufacturing and sale of flooring products consists primarily of raw materials costs, labor cost and overhead. Raw materials costs refer to costs of raw materials used in our own manufacturing activities, such as timber, veneers, fiberboards and plywood. Labor costs consist of salaries, wages and other benefits and staff social insurance we paid to our production staff. Overhead costs primarily include utilities, depreciation and amortization and others.

Cost of sales for trademark and distribution network usage fees consists primarily of labor cost and traveling expenses relating to our representatives who provide authorized manufacturers with on-site technical and logistics support and conduct quality control measures on their products. Authorized manufacturers are responsible for procuring and paying for the raw materials used in their operations.

Cost of sales for trading of timber and flooring products consists primarily of the cost of timber and flooring products purchased for trading.

Set forth below are the components of cost of sales and each item as a percentage of total cost of sales for the periods indicated:

	For the Year Ended December 31,					
	2008		2009		2010	
	RMB	%	RMB	%	RMB	%
	(RMB in thousands, except percentages)					
Manufacturing and sale of flooring products						
Raw materials	381,321	82.2%	423,638	75.0%	635,569	77.4%
Labor	20,705	4.5	26,838	4.8	42,778	5.2
Overhead	62,120	13.3	114,348	20.2	142,666	17.4
Subtotal	464,146	100.0%	564,824	100.0%	821,013	100.0%
Trademark and distribution network usage fees						
Labor	2,072	58.2	1,739	87.8	2,593	95.1
Overhead	1,491	41.8	241	12.2	133	4.9
Subtotal	3,563	100.0%	1,980	100.0%	2,726	100.0%
Trading of timber and flooring products	78,106		65,031		292,466	
Total	**545,815**		**631,835**		**1,116,205**	

Gross Profit and Gross Profit Margin

Gross profit represents the difference between revenues and cost of sales. Gross profit margin is our gross profit divided by revenues. Set forth below are our gross profit and gross profit margin by business segments for the periods indicated:

	For the Year Ended December 31,					
	2008		2009		2010	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(RMB in thousands, except percentages)					
Manufacturing and sale of flooring products	135,564	22.6%	161,893	22.3%	267,753	24.6%
Trademark and distribution network usage fees	149,811	97.7	158,203	98.8	199,340	98.7
Trading of timber and flooring products	54,219	41.0	38,531	37.2	40,610	12.2
Total	**339,594**	**38.4%**	**358,627**	**36.2%**	**507,703**	**31.3%**

Net Change in Fair Value of Biological Assets

Net change in fair value of biological assets is recorded in connection with our acquisition of forest assets. In 2009, we acquired certain forest assets in Peru at a consideration of approximately RMB19.0 million and recorded a gain from the change of fair value less estimated cost to sell at RMB81.9 million. In 2010, we acquired certain forest assets in China at a consideration of approximately RMB41.5 million. See "Business — Our Forest." For the year ended December 31, 2010, the gain from the net change in fair value less estimated cost to sell for our forest assets in Peru and China were in total RMB106.8 million.

Other Net Income

Other net income consists primarily of government grants, which are subject to the discretion of the relevant authorities and may not necessarily be recurring in nature.

Distribution Costs

Distribution costs consist primarily of advertising and promotion expenses, transportation fees, salaries, wages and other benefits for our sales and marketing staff, traveling expenses, decoration fees to distributors and other miscellaneous expenses. Transportation fees primarily refer to the fees paid to logistics companies to deliver products that we manufacture at our own factories from our warehouse to distributors. Decoration fees to distributors refer to the reimbursements which we provide to our distributors in connection with our requirement that all retail stores adopt a uniform decoration and layout. Other miscellaneous expenses consist primarily of office expenses, vehicle usage expenses, insurance expenses, depreciation and entertainment fees.

Administrative Expenses

Administrative expenses consist primarily of salaries, wages and other benefits for our administrative staff, provision/(reversal) for bad debt of trade receivables, consulting fees and others. Others consist primarily of staff social insurance, traveling expenses for our administrative staff, insurance, depreciation, office expenses, rental, entertainment fees, vehicle and amortization of land use rights.

Other Operating Expenses

Other operating expenses consists primarily of donations to charitable organizations or non-governmental organizations and net loss on disposal of property, plant and equipment.

Net Finance Costs

Net finance costs represent the difference of finance income and finance costs. Finance income consists primarily of interest income on bank deposits and net foreign exchange gain. Finance costs consist primarily of interest expenses on bank loans and convertible notes. In May 2008, we issued convertible notes to MS Flooring and IFC, respectively, to expand our operation. Although we are not required to pay any interest, under the effective interest rate method, we recorded interest expenses on these convertible notes which accounted for a substantial portion of finance costs in 2008 and 2009.

Our results of operations were affected, to a certain extent, by the interest expense on convertible notes under effective interest rate method. Set forth below is certain information relating to our profit attributable to equity shareholders of the Company for the year before charging interest expense on convertible notes:

	For the Year Ended December 31,		
	2008	2009	2010
	(RMB in thousands)		
Profit attributable to equity shareholders of the Company for the year before charging interest expense on convertible notes	194,119	298,692	371,012
Interest expense on convertible notes	(48,155)	(74,866)	(30,875)
Profit attributable to equity shareholders of the Company for the year	145,964	223,826	340,137

These convertible notes were fully converted into our Preferred Shares in June 2010. See "History and Development."

Income Tax

Income tax represents enterprise income tax for the companies in our Group. We are subject to income tax on an individual legal entity basis on profit arising in or derived from the tax jurisdictions in which companies within our Group are domiciled or operate.

The enterprise income tax rate generally applied to the enterprises in China, including our PRC subsidiaries, is 25%. Pursuant to the relevant PRC income tax laws and regulations, some of our PRC subsidiaries were entitled to a two-year enterprise income tax exemption followed by a three-year 50% enterprise income tax reduction holiday. Set forth below are the enterprise income tax rates of our PRC subsidiaries which were entitled to tax exemption or preferential tax treatments for the period indicated:

	For the Year Ended December 31,		
	2008	2009	2010
Guangdong Yingran	0%	12.5%	12.5%
Zhongshan Nature	12.5%	12.5%	12.5%
Kunshan Nature	0%	0%	12.5%

In addition, pursuant to the relevant PRC income tax laws, income derived from certain projects relating to forestry industry of Jiangxi Forest, mainly from changes in fair value of forest assets at an amount of approximately RMB110.1 million was exempted from corporate income tax for the year ended December 31, 2010.

We were not subject to any income tax in the Cayman Islands and the BVI in accordance with relevant rules and regulations of the Cayman Islands and the BVI.

During the Track Record Period, we had made no provision for U.S. profits tax because we had no assessable profits.

For the year ended December 31, 2008 and 2009, we had made no provision for Hong Kong profits tax because we had no assessable profits. For the year ended December 31, 2010, Cheerway Industrial Limited, one of our Hong Kong subsidiaries, had generated assessable profits which we made the provision for Hong Kong profit tax at the rate of 16.5%.

During the Track Record Period, our subsidiaries in Macau were subject to income tax at progressive tax rates from 9% to 12% for profits higher than MOP200,000 on an annual basis.

During the Track Record Period, our subsidiaries in Peru were subject to income tax rates of 5% or 10% at difference provinces in Peru.

We recognized deferred tax assets in respect of write-downs of inventories, impairment of receivables, unrealized profit in inventories and tax losses in the amount of nil, RMB8.5 million and RMB6.7 million as at December 31, 2008, 2009 and 2010, respectively. We recognized deferred tax liabilities in respect of capitalized borrowing cost, undistributed profits of subsidiaries and change in fair value of biological assets in the amount of nil, RMB29.8 million and RMB38.3 million as at December 31, 2008, 2009 and 2010, respectively.

Comparison of Results of Operations

2010 Compared to 2009

Overview of Our Results of Operations

Revenues. Revenues increased by 63.9% to RMB1,623.9 million in 2010 compared to RMB990.5 million in 2009, primarily due to the growth of all our business segments, including a 49.8% increase in manufacturing and sale of flooring products, in particular a very strong performance in sales of laminated flooring, a 26.1% increase in trademark and distribution network usage fees, and a 2.2 times increase in trading of timber and flooring products. The increase in consumer demand for our branded flooring products reflected the overall growth of our business, the expansion of our distribution network and the enhancement of our brand recognition. In 2010, the number and geographic coverage of our distributors and Retail Stores significantly increased and expanded. At December 31, 2010, we had 2,107 distributors and 2,901 Retail Stores, compared to 1,379 distributors and 1,936 Retail Stores at December 31, 2009, representing a growth of 52.8% and 49.8%, respectively. Consumer demand for our flooring products was also driven by favorable government policies such as the PRC government's support to construct low-income housing and the initiative to subsidize the sales prices of home building and decoration products. In particular, sales of laminated flooring products benefited from favorable government policies discussed above given the price point and its market position geared towards mass market customers.

In 2010, out of the distributors to whom we directly sold our branded flooring products manufactured at our own factories, the existing distributors (those that were our distributors before 2010) accounted for 99.7% of the total Wholesale Volume of our branded products that we sold directly to our distributors, whereas during the same period, the new distributors (those that became our distributors in 2010) accounted for 0.3% of the total Wholesale Volume of our branded products that we sold directly to our distributors. Moreover, out of the distributors to whom authorized manufacturers directly sold our branded flooring products manufactured by them in 2010, the existing distributors (those that were our distributors before 2010) accounted for 99.6% of the total Wholesale Volume of our branded products that authorized manufacturers sold directly to our distributors, whereas during the same period, the new distributors (those that became our distributors in 2010) accounted for 0.4% of the total Wholesale Volume of our branded products that authorized manufacturers sold directly to our distributors.

Cost of sales. Cost of sales increased by 76.7% to RMB1,116.2 million in 2010 compared to RMB631.8 million in 2009. The increase was primarily due to (i) a 50.0% increase in raw materials costs for manufacturing and sale of flooring products in line with the growth of revenues in this business segment; and (ii) a 3.5 times increase in cost of sales for trading and flooring products, primarily due to the significant increase in the trading volume of timbers resulting from our strategy to provide more stable timber supplies to authorized manufacturers and better assurance of quality of our branded products.

Gross profit. As a result of the foregoing, gross profit increased by 41.6% to RMB507.7 million in 2010 compared to RMB358.6 million in 2009. Gross profit margin decreased to 31.3% in 2010 compared to 36.2% in 2009. The decrease was primarily due to an increase in revenues from the segment of trading of timber and flooring products which, as a percentage to our total revenue, increased to 20.5% in 2010 from 10.5% in 2009, resulting from our strategy to provide more stable supply of timber to authorized manufacturers and better assurance of quality of our branded products. The gross profit margin of trading of timber and flooring products were the lowest among our three business segments in 2010, which decreased to 12.2% from 37.2% in 2009 primarily due to a significant increase in cost of sales which outpaced the increase of revenue in the trading of timber and flooring products segment. The cost of sales in timber trading increased by 8.9 times to RMB238.9 million in 2010 compared to RMB24.1 million in 2009 and the revenue in timber trading increased by 4.8 times to RMB268.7 million in 2010 compared to RMB46.7 million in 2009, primarily due to an increase in the purchase of lower margin timber by our timber trading business, resulting from our strategy to provide a more stable supply of timber to authorized manufacturers by introducing a greater variety of timber.

Other net income. Other net income significantly increased 9.7 times to RMB8.0 million in 2010 compared to RMB749,000 in 2009. The increase was primarily due to a significant increase in government grants to RMB6.9 million in 2010 compared to RMB0.2 million in 2009. The government grants were awarded by Shunde City government to encourage us to enhance our research and development activities and improve our technology in our manufacturing process.

Net change in fair value of biological assets. Net change in fair value of biological assets increased by 30.4% to RMB106.8 million in 2010 compared to RMB81.9 million in 2009. The change was primarily due to our 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 RMB41.5 million determined through arm's length negotiation with the vendors considering the factors such as the suitability of the timber for wood flooring and the demand for wood flooring products made of such timber which was lower than the market valuation conducted by Pöyry.

Distribution costs. Distribution costs increased by 72.0% to RMB95.8 million in 2010 compared to RMB55.7 million in 2009. The increase was primarily due to (i) an increase in transportation fees to RMB31.7 million in 2010 compared to RMB10.8 million in 2009, resulting from an expense of RMB21.4 million in relation to our commencement to engage China Merchants Logistics to deliver our branded products manufactured by our factories and authorized manufacturers since May 2010; prior to this, our distributors were responsible for the shipment of our branded products by themselves. Through this arrangement, we aim to streamline our distribution network and enhance the supervision of authorized manufacturers; and (ii) an increase in advertising and promotion expenses to RMB36.9 million in 2010 compared to RMB18.8 million in 2009 resulting from our enhanced advertising and promotion activities for our business.

Administrative expenses. Administrative expenses increased by 61.9% to RMB81.1 million in 2010 compared to RMB50.1 million in 2009. The increase was primarily due to (i) an increase in consulting fees to RMB15.5 million in 2010 compared to RMB8.1 million, mainly due to the accrual of listing fees and expenses for the preparation of our initial public offering on the Hong Kong Stock Exchange; (ii) a decrease in reversal of bad debt provision of RMB2.8 million in 2010 compared to RMB8.5 million in 2009, primarily due to a decrease in bad debt provision we made in 2010 resulting from the improved financial conditions of authorized manufacturers and customers after the global financial crisis; (iii) an increase in labor costs to RMB36.7 million in 2010 compared to RMB30.5 million in 2009 resulting from the growth of our business; and (iv) an increase in office expenses to RMB5.3 million in 2010 compared to RMB1.8 million in 2009 resulting from the growth of our business.

Other operating expenses. Other operating expenses increased slightly by 3.8% to RMB2.7 million in 2010 compared to RMB2.6 million in 2009.

Net finance costs. Net finance costs decreased by 44.6% to RMB39.2 million in 2010 compared to RMB70.8 million in 2009, primarily due to a decrease in interest expenses on our convertible notes which were fully converted into our Preferred Shares in June 2010. We issued convertible notes in 2008 and recorded interest expenses under the effective interest rate method, although we are not required to pay any interest.

Income tax. Income tax increased by 66.5% to RMB63.6 million in 2010 compared to RMB38.2 million in 2009. The increase was primarily due to (i) a 54.1% increase in profit before taxation to RMB403.7 million in 2010 compared to RMB262.0 million in 2009; and (ii) one of our PRC subsidiaries, Kunshan Nature, which was exempted from enterprise income tax in 2009, was taxed at a preferential income tax rate of 12.5% in 2010. Our effective tax rate increased to 15.7% in 2010 compared to 14.6% in 2009, primarily due to the same reasons described above. We provided a withholding tax provision in the amount of RMB20.2 million and RMB21.1 million in 2010 and 2009, respectively, in relation to undistributed profits retained by our subsidiaries in China and Peru. Without considering the effect of convertible notes, our effective tax rate would be 14.6% in 2010 and 11.1% in 2009, respectively.

Profit attributable to equity shareholders of the Company for the year. As a result of the foregoing, profit attributable to equity shareholders of the Company for the year increased by 52.0% to

RMB340.1 million in 2010 compared to RMB223.8 million in 2009. Our results of operations were affected, to a certain extent, by net change in fair value of biological assets and interest expense on convertible notes under effective interest rate method. Set forth below is certain information relating to our profit attributable to equity shareholders of the Company for the year before charging interest expense on convertible notes and crediting net change in fair value of biological assets:

	For the Year Ended December 31,	
	2009	2010
	(RMB in thousands)	
Profit attributable to equity shareholders of the Company for the year before charging interest expense on convertible notes and crediting net change in fair value of biological assets	216,823	264,214
Net change in fair value of biological assets	81,869	106,798
Interest expense on convertible notes	(74,866)	(30,875)
Profit attributable to equity shareholders of the Company for the year	223,826	340,137

Discussion of Our Revenues by Principal Business Segments

Manufacturing and Sale of Flooring Products

Set forth below is the principal segment result information on manufacturing and sale of flooring products for the periods indicated:

	For the Year Ended December 31,											
	Wholesale Volume		Average Selling Price[(1)]		Revenues		Cost of Sales		Gross Profit /(Loss)		Gross Profit/(Loss) Margin	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
	(sq.m.)		(RMB/sq.m.)		(RMB in thousands)		(RMB in thousands)		(RMB in thousands)		(percentage)	
Laminated flooring	10,561,376	13,914,729	53	55	557,015	763,640	(408,603)	(568,496)	148,412	195,144	26.6%	25.6%
Engineered flooring	687,127	1,483,432	150	128	103,268	189,872	(89,062)	(146,925)	14,206	42,947	13.8%	22.6%
Others[(2)]	313,576[(3)]	540,789[(3)]			66,434	135,254	(67,159)	(105,592)	(725)	29,662	(1.1)%	21.9%
Total	**11,562,079[(4)]**	**15,938,940[(4)]**			**726,717**	**1,088,766**	**(564,824)**	**(821,013)**	**161,893**	**267,753**	**22.3%**	**24.6%**

Notes:

(1) The average selling price is defined as revenues divided by Wholesale Volume.

(2) Others consist primarily of bamboo flooring, wood core and paper packing.

(3) The number refers to the total Wholesale Volume of other flooring products, including bamboo flooring but does not include the Wholesale Volume of wood core and paper packing.

(4) The number refers to the total Wholesale Volume of flooring products, including laminated flooring, engineered flooring and other flooring products, but does not include the Wholesale Volume of wood core and paper packing.

Segment revenues. Revenues from manufacturing and sale of flooring products increased by 49.8% to RMB1,088.8 million in 2010 compared to RMB726.7 million in 2009, primarily due to a 37.1% increase in the sales of laminated flooring products, coupled with a 83.9% increase in the sales of engineered flooring products.

- *Laminated flooring*. Revenues from sales of laminated flooring increased by 37.1% to RMB763.6 million in 2010 compared to RMB557.0 million in 2009. The increase was primarily due to a 31.8% increase in the Wholesale Volume of laminated flooring to 13.9 million sq.m. in 2010 compared to 10.6 million sq.m. in 2009, coupled with a 3.8% increase in the average selling price to RMB55 per sq.m. in 2010 from RMB53 per sq.m. in 2009. The increase in the Wholesale Volume and average selling price of laminated flooring was primarily due to (i) an increase in our brand recognition among consumers as a result of our continuous brand management efforts; (ii) the expansion of our distribution network; and (iii) a greater demand for our laminated flooring, in particular, from lower-tier cities and rural areas in China.

- *Engineered flooring*. Revenues from sales of engineered flooring increased by 83.9% to RMB189.9 million in 2010 compared to RMB103.3 million in 2009. The increase was primarily due to a 1.2 times increase in the Wholesale Volume of engineered flooring to 1.5 million sq.m. in 2010 compared to 0.7 million sq.m. in 2009, which was partially offset by a 14.7% decrease in the average selling price to RMB128 per sq.m. in 2010 from RMB150 per sq.m. in 2009. The significant increase in the Wholesale Volume of engineered flooring was primarily due to the decrease in its average selling price. Gross profit margin significantly increased to 22.6% in 2010 compared to 13.8% in 2009, primarily due to the increasing economies of scale which enabled us to lower production cost.

- *Others*. Revenues from others consisted primarily of sales of bamboo flooring, wood core and paper packing. Revenues from others significantly increased by 1.0 times to RMB135.3 million in 2010 compared to RMB66.4 million in 2009, primarily due to a 2.2 times increase in sales of wood core to RMB58.1 million in 2010 compared to RMB18.4 million in 2009. Gross profit margin was 21.9% in 2010 compared to a negative gross profit margin 1.1% in 2009, primarily due to a provision of RMB8.0 million for the inventory of bamboo flooring in 2009.

Cost of sales. Cost of sales increased by 45.4% to RMB821.0 million in 2010 compared to RMB564.8 million in 2009, which was in line with the growth of our revenue. Cost of sales incurred from manufacturing and sale of laminated flooring increased by 39.1% to RMB568.5 million in 2010 compared to RMB408.6 million in 2009, primarily due to an increase in raw material costs and labor costs resulting from an increase in Wholesale Volume of laminated flooring. Cost of sales incurred from manufacturing and sale of engineered flooring increased by 64.9% to RMB146.9 million in 2010 compared to RMB89.1 million in 2009, primarily due to an increase in raw material costs and labor costs resulting from an increase in Wholesale Volume of engineered flooring. Cost of sales incurred from others increased by 57.1% to RMB105.6 million in 2010 compared to RMB67.2 million in 2009, primarily due to an increase in raw material costs and labor costs resulting from an increase in Wholesale Volume of fiberboards.

Gross profit. As a result of foregoing, gross profit increased by 65.4% to RMB267.8 million in 2010 compared to RMB161.9 million in 2009. Gross profit margin increased slightly to 24.6% in 2010 compared to 22.3% in 2009, primarily due to an increase in the gross profit margin of the engineered flooring which increased to 22.6% in 2010 from 13.8% in 2009, primarily due to the increasing economies of scale which enabled us to lower production cost.

Trademark and Distribution Network Usage Fees

Set forth below is the principal segment result information on trademark and distribution network usage fees for the periods indicated:

For the Year Ended December 31,							
Revenue		Cost of Sales		Gross Profit		Gross Profit Margin	
2009	2010	2009	2010	2009	2010	2009	2010
(RMB in thousands)		(RMB in thousands)		(RMB in thousands)		(percentage)	
160,183	202,066	(1,980)	(2,726)	158,203	199,340	98.8%	98.7%

Segment revenues. Revenues from trademark and distribution network usage fees, net of business tax, increased by 26.2% to RMB202.1 million in 2010 compared to RMB160.2 million in 2009. The increase was primarily due to an increase in the Wholesale Volume of authorized manufacturers as a result of (i) the expansion of our distribution network through which authorized manufacturers exclusively sell their products; (ii) the increase in our brand recognition and the overall growth of China's economy, which generated greater demand for our branded flooring products, including the products manufactured by authorized manufacturers; and (iii) the addition of two authorized manufacturers in 2010.

Cost of sales. Cost of sales was insignificant primarily because the cost of sales for trademark and distribution network usage fees consisting primarily of labor cost and traveling expenses relating to our representatives to authorized manufacturers are small, and authorized manufacturers are responsible for their own raw materials procurement and bear the cost themselves.

Gross profit. As a result of foregoing, gross profit increased by 26.0% to RMB199.3 million in 2010 compared to RMB158.2 million in 2009. Gross profit margin remains stable.

Trading of Timber and Flooring Products

Set forth below is the principal segment result information on trading of timber and flooring products for the periods indicated:

	For the Year Ended December 31,											
	Volume(1)		Average Selling Price(2)		Revenue		Cost of Sales		Gross Profit		Gross Profit Margin	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
					(RMB in thousands)		(RMB in thousands)		(RMB in thousands)		(percentage)	
Timber trading(3)	5,948	36,677	7,196	7,260	46,640	268,684	(24,135)	(238,930)	22,505	29,754	48.3%	11.1%
Flooring trading(4) ...	306,022	369,895	186	174	56,922	64,392	(40,896)	(53,536)	16,026	10,856	28.2%	16.9%
Total	—	—	—	—	**103,562**	**333,076**	**(65,031)**	**(292,466)**	**38,531**	**40,610**	**37.2%**	**12.2%**

Notes:

(1) The amount of volume is in sq.m. for flooring trading and in cubic meter for timber trading. For timber trading, the amount of volume only includes the sales of timbers.

(2) Average selling price is defined as revenues divided by volume. For timber trading, it only refers to the average selling price of timbers at RMB per cubic meter; and for flooring trading, it is at RMB per sq.m.

(3) Timber trading primarily consists of trading of timbers, wood core and others.

(4) Flooring trading primarily consists of trading of laminated flooring, engineered flooring and solid wood flooring.

Segment revenues. Revenues from trading of timber and flooring products increased significantly by 2.2 times to RMB333.1 million in 2010 compared to RMB103.6 million in 2009, primarily due to a 4.8 times increase in revenues from timber trading, coupled with a 13.1% increase in revenues from flooring trading. The significant increase in revenues from timber trading to RMB268.7 million in 2010 compared to RMB46.7 million in 2009 was primarily due to a 5.2 times increase in the trading volume of timbers to 36,677 cubic meters in 2010 compared to 5,948 cubic meters in 2009, resulting from our strategy to provide more stable supply of timber to authorized manufacturers and better assurance of quality of our branded products, through which we expect to better ensure we receive stable fees from authorized manufacturers.

Cost of sales. Cost of sales increased significantly by 3.5 times to RMB292.5 million in 2010 compared to RMB65.0 million in 2009, primarily due to a 8.9 times increase in cost of sales in timber trading, coupled with a 30.9% increase in cost of sales in flooring trading. The significant increase in cost of sales in timber trading to RMB238.9 million in 2010 compared to RMB24.1 million in 2009, primarily due to the significant increase in the trading volume of timbers resulting from our strategy to provide more stable timber supplies to authorized manufacturers and better assurance of quality of our branded products. The increase in cost of sales in flooring trading to RMB53.5 million in 2010 compared to RMB40.9 million in 2009 was primarily due to the increase in the trading volume of flooring products.

Gross profit. As a result of the foregoing, gross profit increased by 5.5% to RMB40.6 million in 2010 compared to RMB38.5 million in 2009. Gross profit margin decreased to 12.2% in 2010 compared to 37.2% in 2009, primarily due to an increase in revenues from timber trading which, as a percentage of our total revenue in the segment of trading of timber and flooring products, increased to 80.7% in 2010 from 45.0% in 2009, resulting from our strategy to provide more stable timber supply to authorized manufacturers and better assurance of quality of our branded products; however, gross profit margin of timber trading decreased to 11.1% in 2010 compared to 48.3% in 2009, primarily due to the increase in the cost of sales outpaced the revenue growth.

2009 Compared to 2008

Overview of Our Results of Operations

Revenues. Revenues increased by 11.9% to RMB990.5 million in 2009 compared to RMB885.4 million in 2008, primarily due to a 21.2% increase in manufacturing and sale of flooring products, in particular a very strong performance in sales of laminated flooring, coupled with a 4.4% increase in trademark and distribution network usage fees, and partially offset by a 21.7% decrease in trading of timber and flooring products. The increase in consumer demand for our branded flooring products reflected the overall growth of our business, the expansion of our distribution network and the enhancement of our brand recognition. In 2009, the number and geographic coverage of our distributors and Retail Stores significantly increased and expanded. At December 31, 2009, we had 1,379 distributors and 1,936 Retail Stores, compared to 1,107 distributors and 1,266 Retail Stores at December 31, 2008, representing a growth of 24.6% and 52.9%, respectively. Consumer demand for our flooring products was also driven by favorable government policies such as the PRC government's support to construct low-income housing and the initiative subsidizing the sales prices of home building and decoration products. In particular, laminated flooring products was more likely to benefit from favorable government policies discussed above given the price point and its market position geared towards mass market customers.

In 2009, out of the distributors to whom we directly sold our branded products manufactured at our own factories, the distributors (those that were our distributors before 2009) accounted for 99.9% of the total Wholesale Volume of our branded products that we sold directly to our distributors, whereas during the same period, the new distributors (those that became our distributors in 2009) accounted for 0.1% of the total Wholesale Volume of our branded products that we sold directly to our distributors. Moreover, out of the distributors whom authorized manufacturers directly sold our branded products manufactured by them in 2009, the existing distributors (those that were our distributors before 2009) accounted for 99.5% of the total Wholesale Volume of our branded products that authorized manufacturers sold directly to our distributors, whereas during the same period, the new distributors (those that became our distributors in 2009) accounted for 0.5% of the total Wholesale Volume of our branded products that authorized manufacturers sold directly to our distributors.

Additionally, in 2008, out of the distributors to whom we directly sold our branded products manufactured at our own factories, the existing distributors (those that were our distributors before 2008) accounted for 98.8% of the total Wholesale Volume of our branded products that we sold directly to our distributors, whereas during the same period, the new distributors (those that became our distributors in 2008) accounted for 1.2% of the total Wholesale Volume of our branded products that we sold directly to our distributors. Moreover, out of the distributors whom authorized manufacturers directly sold our branded flooring products manufactured by them in 2008, the existing distributors (those that were our distributors before 2008) accounted for 98.3% of the total Wholesale Volume of our branded products that authorized manufacturers sold directly to our distributors, whereas during the same period, the new distributors (those that became our distributors in 2008) accounted for 1.7% of the total Wholesale Volume of our branded products that authorized manufacturers sell directly to our distributors.

Cost of sales. Cost of sales increased by 15.8% to RMB631.8 million in 2009 compared to RMB545.8 million in 2008. The increase was primarily due to increases in raw materials costs and overhead for manufacturing and sale of flooring products, which were in line with the overall growth of our business.

Gross profit. As a result of the foregoing, gross profit increased by 5.6% to RMB358.6 million in 2009 compared to RMB339.6 million in 2008. Gross profit margin decreased to 36.2% in 2009 compared to 38.4% in 2008.

Other net income. Other net income increased by 87.3% to RMB749,000 in 2009 compared to RMB400,000 in 2008.

Net change in fair value of biological assets. We had a change in fair value of biological assets of RMB81.9 million in 2009 compared to nil in 2008. The change was primarily due to an increase in fair value of biological assets resulting from our acquisition of 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 determined through arm's length negotiation with the vendor considering the factors such as the suitability of the timber for wood flooring and the demand for wood flooring products made of such timber which was lower than the market valuation conducted by Pöyry.

Distribution costs. Distribution costs decreased by 6.2% to RMB55.7 million in 2009 compared to RMB59.4 million in 2008. The decrease was primarily because we subsidized our new distributors in total of RMB5.0 million to decorate their retail stores in 2008.

Administrative expenses. Administrative expenses decreased by 34.4% to RMB50.1 million in 2009 compared to RMB76.4 million in 2008. The decrease was primarily because of a reversal of bad debt provision of RMB8.5 million in 2009 in connection with a bad debt provision of RMB17.8 million that we provided under the adverse economic conditions in 2008.

Other operating expenses. Other operating expenses increased by 2.3 times to RMB2.6 million in 2009 compared to RMB0.8 million in 2008. The increase was primarily due to an increase in donations in 2009, mainly to China Green Foundation, a non-governmental organization that is dedicated to the development of forestation in China.

Net finance costs. Net finance costs increased by 51.0% to RMB70.8 million in 2009 compared to RMB46.9 million in 2008. The increase was primarily due to a 46.9% increase in finance cost to RMB74.9 million in 2009 compared to RMB51.0 million in 2008, mainly resulting from a 69.1% increase in interest expense on convertible notes to RMB81.5 million in 2009 compared to RMB48.2 million in 2008, partially offset by an amount capitalized into property, plant and equipment of RMB12.3 million in 2009. We incurred a lower interest expense in 2008 because we incurred interest expense on our convertible notes issued in May 2008 for only seven months, compared to twelve months of interest expense incurred in 2009. The interest expense was recorded under the effective interest rate method, although we are not required to pay any interest. Our finance income remained stable at RMB4.1 million in 2008 and 2009, respectively.

Income tax. Income tax increased by 2.6 times to RMB38.2 million in 2009 compared to RMB10.5 million in 2008. The increase was primarily due to (i) a 67.4% increase in profit before taxation to RMB262.0 million in 2009 compared to RMB156.5 million in 2008; (ii) one of our PRC subsidiaries, Guangdong Yingran, which was exempted from enterprise income tax in 2008, was taxed at a preferential income tax rate of 12.5% in 2009; and (iii) a provision in 2009 of withholding tax at 5.0% and 4.1% relating to undistributed profits retained by our subsidiaries in China and Peru, respectively, while there was no such provision in 2008 because we had no plan to distribute profits in 2008. Our effective tax rate increased to 14.6% in 2009 compared to 6.7% in 2008, primarily due to an increase in interest expenses in 2009 in connection with our convertible notes issued in May 2008. We incurred twelve months of interest expense on these notes in 2009, as compared to seven months in 2008. The interest expenses on our convertible notes were recorded under the effective interest rate method, although we are not required to pay any interest. Without considering the effect of convertible notes, our effective tax rate would be 11.1% in 2009 and 5.2% in 2008, respectively, primarily due to a provision in 2009 of withholding tax at 5.0% and 4.1% relating to undistributed profits retained by our subsidiaries in China and Peru, respectively, while there was no provision in 2008 because we had no plan to distribute profits that year. As such, a withholding tax provision in the amount of RMB21.1 million was provided in 2009. This amount was charged to income tax expense in the consolidated income statement which in turn, increased the effective tax rate in 2009.

Profit attributable to equity shareholders of the Company for the year. As a result of the foregoing, profit attributable to equity shareholders of the Company for the year increased by 53.3% to RMB223.8 million in 2009 compared to RMB146.0 million in 2008. Our results of operations were affected, to a certain extent, by net change in fair value of biological assets and interest expense on convertible notes under effective interest rate method. Set forth below is certain information relating to our profit attributable to equity shareholders of the Company for the year before charging interest expense on convertible notes and crediting net change in fair value of biological assets:

	For the Year Ended December 31,	
	2008	2009
	(RMB in thousands)	
Profit attributable to equity shareholders of the Company for the year before charging interest expense on convertible notes and crediting net change in fair value of biological assets	194,119	216,823
Net change in fair value of biological assets	—	81,869
Interest expense on convertible notes	(48,155)	(74,866)
Profit attributable to equity shareholders of the Company for the year	145,964	223,826

Discussion of Our Revenues by Principal Business Segments

Manufacturing and Sale of Flooring Products

Set forth below is principal segment result information on manufacturing and sale of flooring products for the periods indicated:

	For the Year Ended December 31,											
	Wholesale Volume		Average Selling Price[1]		Revenues		Cost of Sales		Gross Profit /(Loss)		Gross Profit/(Loss) Margin	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
	(sq.m.)		(RMB/sq.m.)		(RMB in thousands)		(RMB in thousands)		(RMB in thousands)		(percentage)	
Laminated flooring	6,967,192	10,561,376	59	53	408,668	557,015	(295,976)	(408,603)	112,692	148,412	27.6%	26.6%
Engineered flooring	812,282	687,127	143	150	115,921	103,268	(104,693)	(89,062)	11,228	14,206	9.7%	13.8%
Others[2]	233,311[3]	313,576[3]			75,121	66,434	(63,477)	(67,159)	11,644	(725)	15.5%	(1.1)%
Total	**8,012,785[4]**	**11,562,079[4]**			**599,710**	**726,717**	**(464,146)**	**(564,824)**	**135,564**	**161,893**	**22.6%**	**22.3%**

Notes:

(1) The average selling price is defined as revenues divided by Wholesale Volume.

(2) Others consist primarily of bamboo flooring, wood core and paper packing.

(3) The number refers to the total sales volume of other flooring products, including bamboo flooring, but does not include the Wholesale Volume of wood core and paper packing.

(4) The number refers to the total Wholesale Volume of flooring products, including laminated flooring, engineered flooring and other flooring products, but does not include the Wholesale Volume of wood core and paper packing.

Segment revenues. Revenues from manufacturing and sale of flooring products increased by 21.2% to RMB726.7 million in 2009 compared to RMB599.7 million in 2008, primarily due to a 36.3% increase in the sales of laminated flooring products which was partially offset by a 10.9% decrease in the sales of engineered flooring products.

- *Laminated flooring*. Revenues from sales of laminated flooring increased by 36.3% to RMB557.0 million in 2009 compared to RMB408.7 million in 2008. The increase was primarily due to a 51.6% increase in the Wholesale Volume of laminated flooring to 10.6 million sq.m. in 2009 compared to 7.0 million sq.m. in 2008, partly offset by a 10.2% decrease in the average selling price to RMB53 per sq.m. in 2009 from RMB59 per sq.m. in 2008. The increase in the Wholesale Volume of laminated flooring was primarily due to (i) an increase in our brand recognition among consumers as a result of our continuous brand management efforts; (ii) the expansion of our distribution network; and (iii) a greater demand for our laminated flooring, in particular, from lower-tier cities and rural areas in China. Average selling price of laminated flooring decreased in 2009 from 2008 primarily because we increased our overall production capacity for laminated flooring in 2009, which enabled us to lower per unit production cost. Consequently, we were able to lower the selling prices which in turn stimulated sales of our laminated products.

- *Engineered flooring*. Revenues from sales of engineered flooring decreased by 10.9% to RMB103.3 million in 2009 compared to RMB115.9 million in 2008. The decrease was primarily due to a 15.4% decrease in the Wholesale Volume of engineered flooring to 0.7 million sq.m. in 2009 compared to 0.8 million sq.m. in 2008. The decrease in the

Wholesale Volume was primarily because we allocated more capacity of our own factories to manufacture laminated flooring and reduced our own production of engineered flooring by the addition of two new authorized manufacturers to produce engineered flooring in 2009. The average selling price increased 4.9% in 2009 compared to 2008 primarily due to an increase in raw materials cost as timber price increased. Gross profit margin increased to 13.8% in 2009 compared to 9.7% in 2008, primarily due to the enhanced production efficiency and cost control of Kunshan Nature in 2009 after its first commencement of production in 2008.

- *Others*. Revenues from others consisted primarily of sales of bamboo flooring, wood core and paper packing. Revenues from others decreased by 11.6% to RMB66.4 million in 2009 compared to RMB75.1 million in 2008, primarily because we reduced the production of bamboo flooring in connection with our increased focus on the production of laminated flooring. Gross profit margin decreased to a negative gross profit margin 1.1% in 2009 compared to 15.5% in 2008, primarily due to the inventory provision of RMB8.0 million for bamboo flooring in 2009.

Cost of sales. Cost of sales increased by 21.7% to RMB564.8 million in 2009 compared to RMB464.1 million in 2008 in line with the growth of our business, in particular our increased production of laminated flooring. Cost of sales incurred from laminated flooring increased by 38.0% to RMB408.6 million in 2009 compared to RMB296.0 million in 2008, primarily due to increased raw material costs and labor costs resulting from increased production volumes of laminated flooring.

Gross profit. As a result of foregoing, gross profit increased by 19.4% to RMB161.9 million in 2009 compared to RMB135.6 million in 2008. Gross profit margin was relatively stable, representing a slight decrease to 22.3% in 2009 compared to 22.6% in 2008.

Trademark and Distribution Network Usage Fees

Set forth below is the principal segment result information on trademark and distribution network usage fees for the periods indicated:

For the Year Ended December 31,							
Revenue		**Cost of Sales**		**Gross Profit**		**Gross Profit Margin**	
2008	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
(RMB in thousands)		**(RMB in thousands)**		**(RMB in thousands)**		**(percentage)**	
153,374	160,183	(3,563)	(1,980)	149,811	158,203	97.7%	98.8%

Segment revenues. Revenues from trademark and distribution network usage fees, net of business tax, increased by 4.4% to RMB160.2 million in 2009 compared to RMB153.4 million in 2008. The increase was primarily due to the increases in the Wholesale Volume of authorized manufacturers as a result of (i) the addition of two authorized manufacturers in 2009; (ii) the expansion of our distribution network as authorized manufacturers exclusively sell their products through our distribution network; and (iii) the increase in our brand recognition and the overall growth of China's economy, which generated greater demand for our branded flooring products, including the products manufactured by authorized manufacturers.

Cost of sales. Cost of sales was insignificant because the cost of sales for trademark and distribution network usage fees consisting primarily of labor cost and traveling expenses relating to our representatives to authorized manufacturers are small, and authorized manufacturers are responsible for their own raw materials procurement and bear cost themselves.

Gross Profit. As a result of foregoing, gross profit increased by 5.6% to RMB158.2 million in 2009 compared to RMB149.8 million in 2008. Gross profit margin remains stable.

Trading of Timber and Flooring Products

Set forth below is the principal segment result information on trading of timber and flooring products for the periods indicated:

	For the Year Ended December 31,											
	Volume[1]		Average Selling Price[2]		Revenue		Cost of Sales		Gross Profit		Gross Profit Margin	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
					(RMB in thousands)		(RMB in thousands)		(RMB in thousands)		(percentage)	
Timber Trading[3]	4,446	5,948	7,640	7,196	81,620	46,640	(42,767)	(24,135)	38,853	22,505	47.6%	48.3%
Flooring Trading[4]	313,689	306,022	162	186	50,705	56,922	(35,339)	(40,896)	15,336	16,026	30.3%	28.2%
Total	—	—	—	—	**132,325**	**103,562**	**(78,106)**	**(65,031)**	**54,219**	**38,531**	**41.0%**	**37.2%**

Notes:
(1) The amount of volume is in sq.m. for flooring trading and in cubic meter for timber trading. For timber trading, the amount of volume only includes the sales of timbers.
(2) Average selling price is defined as revenues divided by volume. For timber trading, it only refers to the average selling price of timbers at RMB per cubic meter; and for flooring trading, it is at RMB per sq.m.
(3) Timber trading primarily consists of trading of timbers, wood core and others.
(4) Flooring trading primarily consists of trading of laminated flooring, engineered flooring and solid wood flooring.

Segment revenues. Revenues from trading of timber and flooring products decreased by 21.7% to RMB103.6 million in 2009 compared to RMB132.3 million in 2008, primarily due to a 42.9% decrease in revenues from timber trading, primarily because we decreased trading of wood core in 2009 resulting from our strategy to focus more on our core business of flooring manufacturing.

Cost of sales. Cost of sales decreased by 16.8% to RMB65.0 million in 2009 compared to RMB78.1 million in 2008, primarily because a decrease of cost of sales from timber trading to RMB24.1 million in 2009 compared to RMB42.8 million in 2008, reflecting our strategy to focus more on our core business. The decrease was partially offset by increases in cost of sales relating to trading of timbers and logs and engineered flooring and solid wood flooring in line with the growth of our business.

Gross Profit. Gross profit decreased by 29.0% to RMB38.5 million in 2009 compared to RMB54.2 million in 2008. Gross profit margin decreased to 37.2% in 2009 compared to 41.0% in 2008, primarily because gross profit margin of solid wood flooring trading decreased due to the adverse economic conditions, making solid wood flooring a less desirable choice compared to relatively cheaper flooring products.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We have historically met our working capital and other capital requirements principally with a combination of (i) cash generated from our operations; (ii) bank loans and borrowing; and (iii) issuance of convertible notes. Set forth below is the selected cash flow data from our consolidated statements of cash flows for the periods indicated:

	As at and for the Year Ended December 31,		
	2008	2009	2010
	(RMB in thousands)		
Cash and cash equivalents at beginning of the year	**75,001**	**104,133**	**200,075**
Net cash from/(used in) operating activities	(163,213)	172,262	219,948
Net cash used in investing activities	(198,852)	(146,706)	(103,771)
Net cash from/(used in) financing activities	392,047	71,044	(17,011)
Net increase in cash and cash equivalents	29,982	96,600	99,164
Effect of foreign exchange rate on cash and cash equivalents	(850)	(658)	(1,587)
Cash and cash equivalents as at end of the year	**104,133**	**200,075**	**297,652**

Cash flows from operating activities

In 2010, we had net cash inflows from operating activities of RMB219.9 million, mainly as a result of the profit of RMB340.1 million generated in this period, which was primarily adjusted for (i) a net finance cost of RMB39.2 million primarily relating to an interest expense on our convertible notes issued to MS Flooring and IFC, which was recorded under the effective interest rate method, although we are not required to pay any interest; (ii) a decrease in inventories of RMB57.2 million primarily due to an increase in sales of our branded wood flooring products along with the expansion of our business and our improved inventory management; (iii) an income tax of RMB63.6 million; and (iv) the depreciation of property, plant and equipment of RMB30.1 million; partially offset by (i) an increase in fair value of biological assets of RMB106.8 million primarily due to our acquisition of standing trees and related concession rights in approximately 4,445 hectares of forests located in Yunnan Province, China; (ii) an increase in trade and other receivables of RMB96.7 million, primarily due to an increase in our sales of wood flooring products that was in line with the growth of our business and trademark and distribution network usage fees; and (iii) a decrease in trade and other payables of RMB54.0 million, primarily due to a decrease in the use of bills to RMB21.0 million in 2010 compared to RMB89.9 million in 2009 and an increase in short-term borrowings to RMB183.5 million in 2010 compared to RMB25.5 million in 2009.

In 2009, we had net cash inflows from operating activities of RMB172.3 million, mainly as a result of the profit of RMB223.8 million generated in this period, which was primarily adjusted for (i) an increase in trade and other payables of RMB125.5 million primarily due to an increase in purchases of raw materials and we also increased use of bank bills for short-term liquidity-management purposes for these purchases; (ii) a net finance cost of RMB70.8 million primarily relating to an interest expense on our convertible notes issued to MS Flooring and IFC, which was recorded under the effective interest rate method, although we are not required to pay any interest; (iii) an income tax of RMB38.2 million; and (iv) the depreciation of property, plant and equipment of RMB16.6 million;

partially offset by (i) an increase in inventories of RMB120.2 million mainly due to increased purchases and stocking following increased sales; (ii) an increase in fair value of biological assets of RMB81.9 million mainly due to our acquisition of the rights to harvest approximately 46,347 hectares of standing timber located in Peru in December 2009; and (iii) an increase in trade and other receivables of RMB87.9 million primarily due to an increase in our manufacturing and sale of flooring products and trademark and distribution network usage fees.

In 2008, we had net cash used in operating activities of RMB163.2 million, mainly as a result of the profit of RMB146.0 million generated in this period, which was primarily adjusted for (i) an increase in trade and other receivables of RMB256.1 million primarily due to an increase in our manufacturing and sale of flooring products and trademark and distribution network usage fees, as well as the adverse economic conditions which consequently increased trade and other receivables within the permitted credit periods; (ii) an increase in inventories of RMB154.7 million primarily due to an increase in raw materials, work-in-progress and finished goods in line with the growth of our business; and (iii) an increase in restricted deposits of RMB17.5 million; and partially offset by (i) an increase in trade and other payables of RMB54.9 million primarily due to an increase in purchases of raw materials; (ii) a net finance cost of RMB46.9 million primarily relating to an interest expense on our convertible notes issued to MS Flooring and IFC, which was recorded under the effective interest rate method, although we are not required to pay any interest; and (iii) an impairment loss recognized for receivables.

Cash flows from investing activities

In 2010, we had net cash used in investing activities of RMB103.8 million, primarily due to (i) the payment for acquisition of property, plant and equipment of RMB60.6 million primarily due to our business expansion; (ii) payment for acquisition of biological assets of RMB41.5 million relating to our acquisition of standing trees and related concession rights in approximately 4,445 hectares of forests located in Yunnan Province, China; and (iii) an aggregate payment for acquisition of equity securities of RMB15.2 million in relation to our 19.0% equity interest in each of Liaoning Tai'an Yingfu Xinsheng Flooring Co., Ltd. and Hubei Xiangfan Yingfu Xinsheng Flooring Co., Ltd. in order to expand the manufacturing of our branded laminated flooring products; and partially offset by cash inflows from the proceeds from disposal of subsidiaries, net of cash disposed of, of RMB21.6 million in relation to our disposal of our entire equity interest in our subsidiary, Asia Hero Enterprises Limited.

In 2009, we had net cash used in investing activities of RMB146.7 million, primarily due to (i) the payment for acquisition of property, plant and equipment of RMB130.2 million primarily relating to the purchase of production lines for Jiangxi Yingran, Jiangxi Nature and Zhangjiagang Nature, which were incorporated in 2008 and started production in September, September and April 2009, respectively; (ii) payment for acquisition of biological assets of RMB19.0 million relating to our acquisition of standing trees and related concession rights in approximately 46,347 hectares of forests located in Peru in December 2009; and (iii) the lease prepayments for land use rights of RMB5.0 million relating to the lease of Jiangxi Yingran and Jiangxi Nature; and partially offset by cash inflows from the proceeds from disposal of property, plant and equipment of RMB5.8 million.

In 2008, we had net cash used in investing activities of RMB198.9 million, primarily due to (i) the payment for acquisition of property, plant and equipment of RMB169.9 million mainly relating to the purchase of production lines for Jiangxi Yingran, Jiangxi Nature and Zhangjiagang Nature; and (ii) lease payments for land use rights of RMB48.0 million relating to the lease of Jiangxi Yingran and Zhangjiagang Nature; and partially offset by cash inflows from (i) repayments from our related party, Guangdong Yingbin Nature Wood Industry Co., Ltd., of RMB11.5 million; and (ii) proceeds from disposal of property, plant and equipment of RMB5.5 million.

Cash flows from financing activities

In 2010, we had net cash outflows used in financing activities of RMB17.0 million, primarily due to (i) repayment of bank loans of RMB266.7 million in relation to our borrowings from Standard Chartered Bank (Hong Kong) Limited; and (ii) dividends paid of RMB200.6 million; and partially offset by proceeds from new bank loans of RMB460.3 million in relation to our borrowings from Standard Chartered Bank (Hong Kong) Limited to support our business growth.

In 2009, we had net cash inflows from financing activities of RMB71.0 million, primarily due to proceeds from new bank loans of RMB110.9 million primarily relating to our borrowings from IFC to expand our operations; and partially offset by the repayment of bank loans of RMB32.1 million.

In 2008, we had net cash inflows from financing activities of RMB392.0 million, primarily due to (i) proceeds from issue of convertible notes of RMB488.9 million to MS Flooring and IFC; and (ii) proceeds from new bank loans of RMB44.3 million; and partially offset by (i) the repayment of loans from shareholders of RMB93.7 million relating to our borrowings from Mr. Se Hok Pan and Ms. Un Son I; and (ii) repayment of bank loans of RMB49.5 million.

CURRENT ASSETS AND LIABILITIES

The following table sets forth, at the date indicated, our current assets, current liabilities and net current assets:

	At December 31,			At March 31,
	2008	2009	2010	2011
	(RMB in thousands)			
Current assets				
Inventories	218,855	339,013	279,636	297,869
Trade and other receivables	377,263	465,737	564,298	538,534
Pledged deposits	17,543	22,389	43,462	23,176
Cash and cash equivalents	104,133	200,075	297,652	247,904
Total current assets	**717,794**	**1,027,214**	**1,185,048**	**1,107,483**
Current liabilities				
Trade and other payables	150,329	285,216	193,387	159,935
Loans and borrowings	15,000	597,176	183,458	136,437
Obligations under finance leases	2,096	—	—	—
Income tax payables	5,571	6,275	18,796	7,998
Total current liabilities	**172,996**	**888,667**	**395,641**	**304,370**
Net current assets	**544,798**	**138,547**	**789,407**	**803,113**

At December 31, 2009, net current assets totaled RMB138.5 million, a 74.6% decrease from RMB544.8 million at December 31, 2008, primarily because a significant amount of convertible notes we issued in May 2008 to MS Flooring and IFC which were converted in 2010 were classified as current liabilities in 2009 from non-current liabilities in 2008.

At December 31, 2010, net current assets totaled RMB789.4 million, 4.7 times increases from RMB138.5 million at December 31, 2009, primarily due to (i) an increase in trade and other receivables to RMB564.3 million in 2010 compared to RMB465.7 million in 2009, primarily resulting from the growth of our business; and (ii) a decrease in loans and borrowings to RMB183.5 million in 2010 compared to RMB597.2 million in 2009, primarily resulting from the conversion of our convertible notes issued in May 2008 to our Preferred Shares in June 2010.

At March 31, 2011, net current assets totaled RMB803.1 million, a RMB13.7 million increase from RMB789.4 million at December 31, 2010, primarily due to the decrease of the total current liabilities outpaced the decrease of the total current assets, mainly resulting from our repayment of certain trade and other payables as well as certain loans and borrowings.

Inventories

Sets forth below is a summary of inventory balances at the dates indicated:

	At December 31,					
	2008		2009		2010	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except percentages and days)					
Raw materials	93,072	42.5%	141,572	41.8%	72,246	25.8%
Work-in-progress	38,802	17.7	56,533	16.7	45,129	16.1
Finished goods	80,871	37.0	134,091	39.5	148,688	53.2
Spare parts and consumables	6,110	2.8	6,817	2.0	13,573	4.9
Total	**218,855**	**100.0%**	**339,013**	**100.0%**	**279,636**	**100.0%**
Average inventory turnover days(1)	95		161		101	

Note:
(1) Average inventory equals inventory at the beginning of the year plus inventory at the end of the year, divided by two. Average inventory turnover days equals average inventory divided by cost of sales for the year then multiplied by 365.

Balances of inventories decreased by 17.5% to RMB279.6 million in 2010 from RMB339.0 million in 2009, primarily due to (i) an increase in sales of our branded wood flooring products along with the expansion of our business; and (ii) our improved inventory management.

Balances of inventories increased by 54.9% to RMB339.0 million in 2009 from RMB218.9 million in 2008 primarily due to our increased purchases and stocking following increased manufacturing and sale of flooring products, mainly resulting from (i) the sales to home furnishing supermarkets and property developers which, as compared to our sales to distributors, required a much higher amount of finished goods on stocking, and (ii) the commencement of production of our three factories in 2009, namely Jiangxi Yingran, Jiangxi Nature and Zhangjiagang Nature, which resulted in large purchases of raw materials.

Average inventory turnover days were approximately 95 days, 161 days and 101 days in 2008, 2009 and 2010, respectively. The decrease in the average turnover days from 2009 to 2010 was primarily due to (i) an increase in sales of our branded wood flooring products along with the expansion of our business; and (ii) our improved inventory management. The increase in the average inventory turnover days from 2008 to 2009 was primarily due to the calculation method which used an arithmetic average of the beginning and ending balances of inventories during the year, even though three of our factories (i.e. Jiangxi Yingran, Jiangxi Nature and Zhangjiagang Nature) only maintained inventories during the last four months, four months and nine months, respectively, when they commenced the production in September, September and April 2009, respectively.

Due to seasonal factor of our business that the peak season for the sales of wood flooring products occurs during the months before the Chinese lunar new year and in particular the fourth quarter of the calendar year, we typically have a higher level of inventory in the third quarter so as to meet the demand for our products. We continuously monitor our inventory level, and if any of the following circumstances occurs, we will make provisions, as applicable, upon: (i) a certain level of defected items produced during the production of flooring products; (ii) inventories aged over one year with low utilization rates or sales rates in the current year; and (iii) inventories aged within one year with the estimated selling price below the cost. The estimated selling price will be determined by reference to the latest market price of flooring products. According to these, the inventory provision made during the Track Record Period were primarily for bamboo flooring products as well as certain undesirable engineered flooring products and their respective raw materials. Set forth below is the information of provisions/(reversal of provisions) of inventories for the periods indicated:

	For the Year Ended December 31,		
	2008	**2009**	**2010**
	(RMB in thousands)		
Carrying amount of inventories sold	542,251	605,242	1,121,229
Provisions/(reversal of provisions) of inventories	—	24,613	(7,750)
Total	**542,251**	**629,855**	**1,113,479**

At March 31, 2011, approximately RMB118.5 million, or 42% of our inventories at December 31, 2010 were subsequently consumed or sold.

Trade and Other Receivables

Trade Receivables

Set forth below is a summary of trade receivables at the dates indicated:

	At December 31,					
	2008		2009		2010	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except percentages and days)					
Trade debtors	322,776	99.9%	377,978	99.2%	430,941	85.6%
Bills receivables	60	0.1%	3,000	0.8%	72,470	14.4%
Less:						
allowance for doubtful debts	(17,830)		(9,309)		(5,615)	
Total trade receivables	**305,006**		**371,669**		**497,796**	
Average trade receivables turnover days[1]	85		125		98	

Note:

(1) It is calculated as the average of the trade receivables of at the beginning and at the end of the year, divided by sales revenues for the year and multiplied by 365.

Trade receivables represent proceeds receivable from sale of flooring products and timber, as well as trademark and distribution network usage fees receivable from our authorized manufactures. We generally grant our distributors who purchase products from us a payment term of up to three months. For authorized manufacturers, we generally grant them a payment term of 120 to 180 days. Trade receivables increased by 33.9% to RMB497.8 million at December 31, 2010 compared to RMB371.7 million at December 31, 2009 primarily due to (i) an increase in the sales of our branded products; and (ii) an increase in the use of bills. Trade receivables increased by 21.9% to RMB371.7 million at December 31, 2009 compared to RMB305.0 million at December 31, 2008 primarily due to an increase in the sales of our branded products. In 2008, 2009 and 2010, trade receivables due from authorized manufacturers amounted to approximately RMB148.7 million, RMB172.2 million and RMB82.0 million, respectively while trade receivables due from distributors and overseas/other customers amounted to approximately RMB156.2 million, RMB196.5 million and RMB343.3 million, respectively.

Average trade receivables turnover days were approximately 85 days, 125 days and 98 days in 2008, 2009 and 2010, respectively. The decrease in the average turnover days from 125 days in 2009 to 98 days in 2010 was primarily due to (i) our enhanced credit control; and (ii) the improved financial conditions of authorized manufacturers and customers after the global financial crisis which enabled them to settle their payments in a timely manner. The increase in the average trade turnover days from 85 days in 2008 to 125 days in 2009 was primarily due to (i) the extension of payment terms we granted to authorized manufacturers who encountered financial difficulties, based on their credit worthiness and our inspection of their inventory, under the adverse economic conditions between 2008 and 2009; and (ii) an increase in the amount of trade receivables resulting from an increase in the sale of our branded products primarily due to the improved financial condition in the second half of 2009.

Set forth below are aging schedule of trade receivables at the date indicated:

	At December 31,					
	2008		2009		2010	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except percentages)					
Current	202,349	66.3%	300,080	80.8%	422,593	84.9%
Less than three months past due	52,020	17.1	28,384	7.6	67,161	13.5
More than three month but less than twelve months past due	50,637	16.6	43,205	11.6	8,042	1.6
Total	**305,006**	**100.0%**	**371,669**	**100.0%**	**497,796**	**100.0%**

During the Track Record Period, a majority of trade receivables were aged less than three months. We have continuously enhanced our management of trade receivables in order to reduce the exposure to impairment risks. In addition, after fully considering the nature of trade receivables and their collectability, we make provisions for impairment of certain trade receivables in order to ensure the quality of our assets. The impaired trade receivables related to customers that encountered financial difficulties and it was assessed that only a portion of the receivables are expected to be recovered. We do not hold any collateral or other credit enhancements over these impaired trade receivables. We granted a credit term of up to 120 days to authorized manufacturers during most part of the Track Record Period until September 2010 when our Directors agreed to extend the credit period to up to 180 days. The extension of the credit period was a reflection of our long term and stabilized business relationship and the increasing business volume with the authorized manufacturers. We, however, did not grant any credit or extend the terms of repayment to distributors that encountered financial difficulties. We follow our policy of taking provisions for bad debt in accordance with generally accepted accounting principles. At December 31, 2008 and 2009 and 2010, allowance for doubtful debts were RMB17.8 million, RMB9.3 million and RMB5.6 million, which represented 5.5%, 2.4% and 1.1% of trade receivables, respectively.

At March 31, 2011, approximately RMB213.2 million, or 43% of our trade receivables outstanding at December 31, 2010 were collected.

Other Receivables

Set forth below are a summary of other receivables at the dates indicated:

	At December 31,					
	2008		2009		2010	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except percentages)					
Deposits	1,591	1.3%	8,013	7.4%	1,081	1.6%
Prepayments for purchase of raw materials	54,291	45.8	36,976	34.2	16,171	23.2
Prepayments for purchase of equipment	46,380	39.1	14,028	13.0	3,237	4.6
Prepayments for investment in equity securities	—	—	—	—	4,250	6.1
Value added tax recoverable	11,692	9.9	39,938	36.9	24,466	35.1
Other prepayments and receivables	4,683	3.9	9,141	8.5	20,534	29.4
Total	**118,637**	**100.0%**	**108,096**	**100.0%**	**69,739**	**100.0%**

Other receivables decreased by 35.5% to RMB69.7 million in 2010 compared to RMB108.1 million in 2009, primarily due to (i) a decrease in prepayment for purchase of raw materials, primarily due to our relatively higher level of raw materials in 2009 which provided stable supply for 2010; (ii) a decrease in prepayment for purchase of equipment, primarily due to the completion of construction and commencement of production of Jiangxi Nature; (iii) a decrease in value added tax recoverable resulting from the decreased inventory level.

Other receivables slightly decreased by 8.9% to RMB108.1 million in 2009 compared to RMB118.6 million in 2008, primarily due to (i) a decrease in prepayment for purchase of equipment mainly due to the completion of construction and commencement of production of Jiangxi Nature; and (ii) a decrease in prepayment for purchase of raw materials, mainly because we had a relatively high inventory level in 2009 which provided stable supply of raw materials, partially offset by (i) an increase in value added tax recoverable resulting from the increased inventory level; and (ii) an increase in deposits mainly due to our contract of RMB1.3 million for a renovation project in Macau.

Trade and Other Payables

Trade Payables

Set forth below is a summary of trade payables at the dates indicated:

	At December 31,					
	2008		2009		2010	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except percentage and days)					
Trade creditors	81,381	96.4%	114,744	56.1%	61,346	74.5%
Bills payables	3,000	3.6%	89,890	43.9%	20,957	25.5%
Total	**84,381**	**100.0%**	**204,634**	**100.0%**	**82,303**	**100.0%**
Average trade payables turnover days(1)	44		83		47	

Note:

(1) It is calculated as the average of the trade payables of at the beginning and at the end of the year, divided by cost of sales for the year and multiplied by 365.

We use trade payables primarily in connection with the purchases of raw materials for our production process. Trade payables significantly decreased to RMB82.3 million in 2010 compared to RMB204.6 million in 2009, primarily due to a decrease in the use of bills to RMB21.0 million in 2010 compared to RMB89.9 million in 2009 and an increase in short-term borrowings to RMB183.4 million in 2010 compared to RMB25.5 million in 2009. Trade payables increased significantly to RMB204.6 million in 2009 compared to RMB84.4 million in 2008 primarily due to (i) an increase in purchases of raw materials as our sales increased and the commencement of production of our three new factories, namely Jiangxi Yingran, Jiangxi Nature and Zhangjiagang Nature, in 2009; and (ii) an increase in our use of bank bills to fund raw material supply purchases as banks were more willing to grant us the access to their bills as compared to 2008 when we finished the reorganization and had limited operation history.

We are typically granted credit periods of 60 days by our suppliers. Average trade payable turnover days were approximately 44 days, 83 days and 47 days in 2008, 2009 and 2010, respectively.

The decrease in the average trade payable turnover days from 83 days in 2009 to 47 days in 2010 was primarily due to a decrease in the use of bills to RMB21.0 million in 2010 compared to RMB89.9 million in 2009 and an increase in short-term borrowings to RMB183.4 million in 2010 compared to RMB25.5 million in 2009. The increase in the trade payables turnover days from 44 days in 2008 to 83 days in 2009 were primarily due to (i) an increase in the amount of trade payables resulting from the growth of our business; (ii) an increase in our use of promissory notes to fund raw material supply purchases, which typically have a three-month settlement period; (iii) the calculation method which used an arithmetic average of the beginning and ending balance of trade payables of the year, which was affected by our increased purchases in the fourth quarter of 2009 in relation to the commencement of production of our new factories, including Jiangxi Yingran, Jiangxi Nature and Zhangjiagang Nature, to respond, to some extent, the recovery of China's economy; and (iv) the adverse economy in the first half of 2009.

Set forth below is a summary of the aging analysis of trade payables at the dates indicated:

	For the Year Ended December 31,		
	2008	2009	2010
	(RMB in thousands)		
Due within one month or on demand	47,722	88,061	60,666
Due after one month but within three months	24,118	94,815	14,293
Due after three months but within six months	8,292	20,270	4,279
Due after six months abut within twelve months	4,249	1,488	3,065
Total	84,381	204,634	82,303

At March 31, 2011, approximately RMB70.5 million, or 85.7% of our trade payables outstanding at December 31, 2010 were paid.

Other Payables

Set forth below is a summary of other payables at the dates indicated:

	At December 31,					
	2008		2009		2010	
	Amount	%	Amount	%	Amount	%
	(RMB in thousands, except percentages)					
Payables for purchase of property, plant and equipment	25,340	38.4%	36,713	45.6%	7,599	6.8%
Advanced payments and deposits received from customers	10,385	15.8	11,794	14.6	38,474	34.6
Accrued staff costs	13,728	20.8	16,200	20.1	17,078	15.4
Others(1)	16,495	25.0	15,875	19.7	47,933	43.2
Total	**65,948**	**100.0%**	**80,582**	**100.0%**	**111,084**	**100.0%**

Note:

(1) Others primarily consisted of value added tax, business tax and consumption tax payable, advertising and promotion payable to dealers, accrued professional fees, other payable and accruals, payable due to related parties and deferred income.

INDEBTEDNESS

Loans and Borrowings

Set forth below are balances of loans and borrowings at the dates indicated:

	At December 31,			At March 31,
	2008	2009	2010	2011
	(RMB in thousands)			
Non-Current				
Convertible notes	490,645	—	—	—
Long-term bank loans				
Secured[(1)]	—	68,311	52,852	49,220
Unsecured	—	—	50,629	50,114
Total non-current loans and borrowings	490,645	68,311	103,481	99,334
Current				
Short-term bank loans				
Secured[(1)]	—	25,506	55,719	40,506
Unsecured	15,000	—	127,739	95,931
Current portion of convertible notes	—	571,670	—	—
Total current loans and borrowings	15,000	597,176	183,458	136,437
Total	**505,645**	**665,487**	**286,939**	**235,771**

Note:
(1) Secured bank loans were mainly secured by property, plant and equipment, lease prepayments, bills receivables and pledged deposits.

In May 2008, we issued US$50 million in principal amount of convertible notes to MS Flooring and US$20 million in principal amount of convertible notes to IFC, respectively, for the purpose to expand our operation. See "History and Development." These convertible notes were fully converted into our voting Preferred Shares in 2010. Our convertible notes had effective interest rates ranging from 16.03% to 16.86% in 2008 and 2009, although we did not pay any interest.

Our total loans and borrowings increased by 31.6% to RMB665.5 million at December 31, 2009 from RMB505.6 million at December 31, 2008. We increased bank loans and borrowings to meet our working capital needs. Our total loans and borrowings decreased by 56.9% to RMB286.9 million at December 31, 2010 from RMB665.5 million at December 31, 2009.

At March 31, 2011, total bank borrowings amounted to RMB235.8 million. At the same date, total unutilized banking facilities amounted to approximately RMB1,579 million.

Bank loans are arranged at fixed and variable rates. The fixed rate borrowings carry interest at prevailing market rates. The remaining borrowings are arranged at variable rates by reference to the applicable PBOC benchmark lending rates with respect to our domestic banks loans or the applicable LIBOR rates with respect to the offshore bank loans. In 2010, we had secured bank loans at a fixed interest rate of 5.103% per annum and a variable interest rate based on prevailing market rate, ranging from 3.13% to 4.09%. In 2009, we had secured bank loans at a fixed interest rate of 5.103% per annum and a variable interest rate based on prevailing market rate, ranging from 3.74% to 4.49%. In 2008, we had unsecured loans at a variable interest rate, based on prevailing market rate, ranging from 5.31% to 7.47%.

Set forth below is the maturity of loans and borrowings at the dates indicated:

	At December 31,		
	2008	2009	2010
	(RMB in thousands)		
Within one year	16,053	629,133	189,705
More than one year but less than two years, inclusive	603,219	21,244	46,281
More than two years but less than five years, inclusive	—	49,569	60,728
Total	**619,272**	**699,946**	**296,714**

Financial Ratios

Gearing Ratios

Our gearing ratios, which are derived by dividing adjusted net debt by adjusted capital, were 1.05, 0.89 and a negative gearing ratio 0.02 at December 31, 2008 and 2009 and 2010, respectively. Adjusted net debt is defined as total debt which includes bills payable, interest-bearing loans and borrowings and obligations under finance leases, less cash and cash equivalents and pledged deposits. Adjusted capital is defined as all components of equity. Please refer to Note 26(e) to the Accountants' Report in Appendix I to this prospectus for more details.

Current Ratios

Our current ratios, which are derived by dividing total current assets by total current liabilities, were 4.15, 1.16 and 3.0 at December 31, 2008, 2009 and 2010, respectively.

Our current ratio increased to 3.0 at December 31, 2010 compared to 1.16 at December 31, 2009, primarily due to (i) an increase in cash and cash equivalent resulting from our improved financial performance in 2010; and (ii) the conversion of our convertible notes issued in May 2008 to our Preferred Shares in June 2010.

Our current ratio decreased to 1.16 at December 31, 2009 compared to 4.15 at December 31, 2008, primarily due to an increase in loans and borrowings in 2009 because a significant amount of convertible notes we issued in May 2008 to MS Flooring and IFC which were converted in 2010 were classified as current liabilities in 2009 from non-current liabilities in 2008.

BIOLOGICAL ASSETS

We have acquired certain forest assets in Peru and China. The valuation of fair value of our biological assets, namely forest assets, was conducted by Pöyry. Pöyry is a global consulting and engineering company focusing on industries which include the forestry, pulp and paper sector, the energy, urban & mobility and water section and the water and environment sector. Its Management

Consulting business unit is one of the most recognized management consulting organizations in the paper industry with more than 50 years of industry consulting experience and is one of the most recognized advisors to the global forestry industry cluster.

In 2009, in connection with our forest assets in Peru which we acquired at a consideration of approximately RMB19.0 million, we recorded a net change in fair value of biological assets of RMB81.9 million, which accounted for approximately 24.6% of our profit from operations in 2009. In 2010, in connection with our forest assets in China which we acquired at a consideration of approximately RMB41.5 million and our forest assets in Peru, we recorded a net change in fair value of biological assets of RMB106.8 million, which accounted for approximately 24.1% of our profit from operations in 2010. The net change in fair value 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 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.

The evaluation of fair value of our forests assets involves the exercise of professional judgment and employs certain bases and assumptions. According to Pöyry, the comparable market sales value for purposes of determining the fair value of forest assets is generally not available, primarily because in order to use the comparable market sales value, the valuer needs to consider a number of factors that may affect the value of the transacted forest, including but not limited to, the size and maturity of the forest, species composition, site productivity, proximity to market and the time at which an example sale took place. Given the range of factors affecting the forest value, it is unlikely that forest can be found that is closely similar to the forest to be valued. Thus, achieving a forest-to-forest match is extremely unlikely, as it would require the forest to be alike in all aspects, including the size. Moreover, forest estate transactions are not frequent. Transaction price and details of forest transacted are generally not available in the open market. Based on the foregoing views of Pöyry, therefore, in determining the fair value of our forests assets, Pöyry adopted a net present value approach whereby projected future net cash flows, calculated based on the international timber log prices, were discounted according to the harvest plans to provide a current market value of the forest assets. The discount rate adopted by Pöyry for our forest assets in Peru and China were 12.0% and 11.5%, respectively. These discount rates were determined by reference to discount rates of companies that carry out similar business activities, weighted average cost of capital analysis, the implied discount rate of forest transactions over a period of time, as well as the risks associated with operating a venture in Peru and China.

In determining the fair value of our forest assets, Pöyry adopted the following principal valuation assumptions:

- A forest estate approach has been used to model the management and harvest of the forest assets, subject to a set of constraints that are either known to exist or deemed appropriate to the management of the forests. Within the bounds of the constraints imposed, such as a smoothed harvest for a period of years, or in the case of the forest in

Peru, non-declining and thus sustainable yield, trees are harvested at or near their optimum economic rotation age, and value is maximized;

- The cash flows are, for the main part, those arising from the current rotation of trees only, except where costs in association with re-establishment are necessarily incurred in relation to the approval for harvesting the current crop. No account was taken of other costs or revenues associated with the second or subsequent rotations of tree crops, or of land not yet planted;
- The cash flows do not take into account income taxation and finance costs, and the discount rate applied in estimating current market value is that deemed appropriate to such pre-tax cash flows;
- The cash flows have been prepared in real terms and have not therefore included inflationary effects;
- The influence of any planned future activity of the business that may impact the pricing of the logs harvested from the forest has not been taken into account; and
- Costs are current average costs and no allowance has been made for cost improvements in future operations.

In determining the fair value of our forest assets, Pöyry also adopted the following principal methodologies:

- Document review, which includes the review of various documents provided to Pöyry, such as forest maps, description of stocked area, species, age of crops and the growth characteristics of crop including the height, diameter, stocking, health and form;
- Field inspection, which includes on-site inspection of our forests in Yunnan Province, China and in Loreto Province, Peru, respectively. During the inspection, Pöyry has independently selected the inspected areas and compared the forest crop with the information provided by us. The field work carried by Pöyry included establishing plots and measuring trees at selected locations within compartments in the forest estate and having interviews with market participants, local forest authorities and staff; and
- Aerial survey. With respect to our forest in Peru, based on the physical forest description provided by us, Pöyry undertook an aerial inspection of the two concessions in October 2009 and inspected the overall condition of the forest and the canopy structure. In addition, Pöyry conducted remote sensing exercise by using satellite imagery to verify the physical descriptions of each site, including topography, roads, rivers and forest types, in order to define the net production area. Pöyry did not conduct an aerial survey in 2010, as the results are expected to remain basically unchanged since one year ago. The remote sensing data is ground-truthed during the field inspection trips carried out in both 2009 and 2010.

With respect to our forest in Yunnan Province, China, Pöyry has not conducted aerial inspection as the size of the forest is smaller and more scattered compared to the forest in Peru. Instead, Pöyry conducted a field inspection for the forestry and compared the forest crop descriptions provided by us with these in the field. Visual inspection and inventory plot work were carried out in two blocks with Yunnan pine as the dominant species assessed. This inventory work has provided

Pöyry with data for use in the valuation which includes estimates of the total standing and recoverable volume (per unit area) of various species in the forest which support our estimates of future growth and yield.

According to Pöyry, in the absence of any unforeseen material change in the market and economic circumstances, there will not be any material change in fair value of our biological assets for the Profit Forecast Period primarily due to the following reasons:

- There has not been, and is not expected to have, any acquisition of additional biological assets during the Profit Forecast Period. Therefore, no valuation gain or loss is expected to arise due to any acquisition;
- There has not been, and is not expected to have, any material harvesting of biological assets during the Profit Forecast Period. We intend to commence initial commercial logging of our Peru forest by the end of June 2011 and the quantity is only expected to be less than 30 cubic meters of timbers. The commercial logging of our Yunnan forest will only commence in the second half of 2011. The remaining quantity of timber in both Peru and Yunnan forest remains substantially the same which is expected to have an immaterial, if at all, wood flow impact on the overall valuation during the Profit Forecast Period;
- The harvesting assumptions used by Pöyry relating to the valuation of our biological assets for the year ended December 31, 2010 remain valid;
- Timber in both Peru and Yunnan forests are mature trees with limited room for growth in a six-month period, therefore we expect no change in timber volume during the Profit Forecast Period;
- No change in discount rate is expected in the valuation of biological assets during the Profit Forecast Period and therefore we expect no impact on the valuation; and
- The log price forecast applied in the forest valuation conducted by Pöyry for the year ended December 31, 2010 remains valid and no major price fluctuation is expected to occur during the Profit Forecast Period that will impact the valuation.

Set forth below is the sensitivity analysis conducted by Pöyry on changes in discount rate and log price affecting the value of our forests in Yunnan and Peru as of December 31, 2010:

Discount Rate	Yunnan		Peru	
	Discount rate at	(RMB in millions)	Discount rate at	(RMB in millions)
Increased	13.5%	134	14.0%	78.1
Base Case	11.5%	152	12.0%	94.7
Reduced	9.5%	175	10.0%	116.6

Log Price	Yunnan		Peru	
	Change	(RMB in millions)	Change	(RMB in millions)
Increased	+10.0%	178	+10.0%	98.0
Base Case	—	152	—	94.7
Reduced	-10.0%	126	-10.0%	91.4

Analysis of sensitivity helps to assess the impact of various changes in assumptions on the forest asset value. The main variables that impact any forest asset value are: discount rate, log price, forest yield, productive areas and costs. From Pöyry's experience, forest value is especially sensitive to changes in discount rate and log price, which are the two parameters commonly adopted by the industry to conduct sensitivity analysis with respect to valuation of forestry assets. Pöyry has applied a 2% increase or decrease in discount rate and 10% increase or decrease in price in its sensitivity analyses which in Pöyry's opinion is fairly reasonable.

For further information of our biological assets, see "Appendix V — Forest Valuation."

CAPITAL EXPENDITURES

Historical Capital Expenditures

We have historically funded our capital expenditures from cash generated from our operations, bank loans and borrowing and issuance of convertible notes. Our capital expenditures primarily related to purchases of property, plant and equipment, lease prepayments, biological assets and intangible assets. Set forth below is our capital expenditure for the periods indicated:

	For the Year Ended December 31,		
	2008	2009	2010
	(RMB in thousands)		
Property, plant and equipment	169,902	130,195	60,572
Lease prepayments	48,033	5,001	7,371
Biological assets	—	18,991	41,530
Intangible assets	—	219	552
Total	**217,935**	**154,406**	**110,025**

Our capital expenditures decreased by 28.7% to RMB110.0 million in 2010 compared to RMB154.4 million in 2009, primarily due to the completion of construction and commencement of production of Jiangxi Nature.

Our capital expenditures decreased by 29.1% to RMB154.4 million in 2009 compared to RMB217.9 million in 2008, primarily due to the purchases of lease prepayments for land use right and plants and machinery for the construction of production lines in Zhangjiagang Nature, Jiangxi Yingran and Jiangxi Nature.

Planned Capital Expenditures

We expect to have capital expenditures of approximately RMB212.8 million related to our expansion plans in 2011. For more details, see the section headed "Future Plans and Use of Proceeds."

We plan to finance our future capital expenditures primarily through net proceeds from the Global Offering, cash flows generated from our operations and bank borrowings. As we continue to expand, we may incur additional capital expenditures. In the future, we may also consider debt or equity financing, depending on market conditions, our financial performance, capital needs and other relevant factors.

COMMITMENTS AND CONTINGENT LIABILITIES

Capital Commitments

Set forth below are our capital commitments at the dates indicated:

	At December 31,		
	2008	2009	2010
	(RMB in thousands)		
Property, plant and equipment			
Contracted for	78,007	12,834	1,250
Authorized but not contracted	—	112,166	32,048
Total	**78,007**	**125,000**	**33,298**

Operating Lease Commitments

We lease a number of machineries and factory facilities under operating leases. Set forth below are our future minimum lease payments under operating leases at the dates indicated:

	At December 31,		
	2008	2009	2010
	(RMB in thousands)		
Within one year	3,328	2,971	4,631
After one year but within three years	3,943	3,067	7,437
After three years but within five years	2,987	2,850	5,024
After five years	8,367	6,966	10,379
Total	**18,625**	**15,854**	**27,471**

Contingent Liabilities

At the Latest Practicable Date, we did not have contingent liabilities that will have a material adverse effect on our financial position, liquidity or results of operations.

WORKING CAPITAL

Based on past performance and current expectations, our Directors have confirmed that cash on hand, cash generated from operations, available credit facilities, access to credit markets and our estimated net proceeds from the Global Offering will be adequate to support planned business operations, commitments and other contractual obligations for at least the next 12 months from the date of this prospectus and we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2010, being the date of our latest audited consolidated financial statements as contained in the Accountant's Report included in Appendix I to this prospectus, we did not have any material off-balance sheet arrangements except for the commitments disclosed above.

Except as disclosed in this prospectus, as at March 31, 2011, we did not have any outstanding debt securities issued and outstanding or authorized or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees.

Our Directors have confirmed that from March 31, 2011 until the Latest Practical Date, there had no material change in the indebtedness, commitments and contingent liabilities of our Group.

PROPERTY VALUATION

BMI Appraisals Limited, an independent property valuer, has valued our property interests in relation to all industrial complexes at March 31, 2011. See "Appendix IV — Property Valuation." Set forth below is a reconciliation of the net book value of property interest as at December 31, 2010 to the Property Valuation in Appendix IV to this prospectus at March 31, 2011.

	At December 31, 2010	At March 31, 2011
	(RMB in thousands)	
Valuation of properties at March 31, 2011 as set out in the Property Valuation in Appendix IV to this prospectus		221,140
Net book value at December 31, 2010	194,089	
Depreciation	(1,525)	
Net book value of properties at March 31, 2011, as set out in the Property Valuation in Appendix IV to this prospectus		192,564
Revaluation surplus, before corporate income tax		28,576

MARKET RISKS

We are exposed to various types of market risks in the ordinary course of our business, including changes in costs of raw materials, fluctuations in foreign exchange rates and interest rates, credit risks, liquidity risk, inflation risk and natural risk. We manage our exposure to these and other market risks through regular operating and financial activities.

Commodity Price Risk

We are exposed to fluctuations in the prices of raw materials which are influenced by global as well as regional supply and demand conditions. Certain major raw materials, such as timber, fiberboards and plywood, generally account for a significant part of the total cost of sales. Fluctuations in the prices of raw materials could adversely affect our financial performance. We historically have not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Foreign Currency Risk

We have transactional currency exposure. Such exposure arises from our bank deposits, trade and other receivables, trade and other payables and bank loans and borrowings. The currencies giving rise to this risk are primarily U.S. dollars, Hong Kong dollars, Macau Pataca, Peruvian Nuevo Sol, Euro and Japanese yen. At December 31, 2008, 2009 and 2010, our total net exposure to foreign currencies were equivalent to approximately RMB69.7 million receivables, RMB45.5 million payables and RMB85.7 million payables, respectively. We do not use foreign currency forward exchange contracts to hedge the currency exposure arising from individual transactions. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency exchange rates. Our profit before tax would have increased or decreased if the Renminbi would have weakened or strengthened with a reasonable possible change and other variables held constant for the years ended December 31, 2008, 2009 and 2010, respectively. Please refer to Note 27(d) to the Accountants' Report in Appendix I to this prospectus for more details.

Interest Rate Risk

Our exposure to changes in interest rates is mainly attributable to our loans, deposit with banks and other financial institutions and convertible notes. Loans and borrowings carried at floating rates expose us to cash flow interest-rate risk whereas those carried at fixed rates expose us to fair value interest-rate risk. At December 31, 2008 and 2009 and 2010, approximately 97.0%, 86.7% and 20.4% of loans and borrowings were at fixed rates and approximately 3.0%, 13.3% and 79.6% of loans and borrowings were at floating rates, respectively. We have not used any interest rate swaps to hedge our exposure to interest rate risk. Please refer to Note 27(c) to the Accountants' Report in Appendix I of this prospectus for more details.

Credit Risk

The major concentration of credit risk arises from our exposure to a substantial number of trade receivables from our customers. We have policies in place to conduct credit evaluation of all our customers and we perform credit limit review annually. Normally, we do not require collateral relating to trade and other receivables. At December 31, 2008 and 2009 and 2010, trade receivables due from our five largest customers were approximately 54.8%, 40.2% and 36.2% of our total trade receivables, respectively. At the same periods, trade receivables due from authorized manufacturers were approximately 15.9%, 46.3% and 16.5% of our total trade receivables, respectively. Impairment loss of trade receivables were decreased by 39.7% to RMB5.6 million at December 31, 2010 from RMB9.3 million at December 31, 2009, which in turn, decreased by 47.8% from RMB17.8 million at December 31, 2008, primarily due to our enhanced efforts in the collection of trade receivables. Please refer to Note 27(a) to the Accountants' Report in Appendix I of this prospectus for more details.

Liquidity Risk

Our management adopts prudent liquidity risk management and maintain sufficient cash and the availability of funding through an adequate amount of credit facilities. We aim to maintain flexibility in funding by keeping credit lines available. We finance our working capital requirements through a combination of funds generated from operations and bank and other borrowings.

Set forth below are our financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	At December 31, 2010		
	Within One Year or On Demand	More Than One Year But Less Than Two Years	More Than Two Years but Less Than Five Years
	(RMB in thousands)		
Loans and borrowing	189,705	46,281	60,728
Trade and other payables	193,387	—	—
Total	**383,092**	**46,281**	**60,728**

Inflation or Deflation Risk

According to the National Bureau of Statistic of China, China's national inflation rate, as measured by the general consumer price index, was approximately 4.8% in 2008. In 2009, the PRC recorded a deflation of 0.7% and an inflation of 3.3% in 2010. Inflation or deflation is a factor that would affect interest rates and consumer spending, which continue to affect the operation of our business.

Natural Risk

Our ability to harvest wood in the concessions and the growth of the trees may be affected by unfavorable local weather conditions and natural disasters, which consequently affect our operations. The occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting in the concessions, or otherwise impede our logging operations or the growth of the trees, which in turn may have a material adverse effect on our ability to produce the products in sufficient quantities and in a timely manner. Moreover, bad weather may adversely affect the condition of our transportation infrastructure, which is critical for us to supply timber from the timber concessions to the manufacturing plants and customers. We have developed a strategy for utilizing different transportation means and stockpiling, but our daily operations may be adversely affected by interruption of transportation due to bad weather or other factors beyond our control.

PROFIT FORECAST FOR SIX MONTHS ENDING JUNE 30, 2011

In the absence of unforeseen material circumstances and on the bases and assumptions set out in "Appendix III — Profit Forecast" to this prospectus, the Directors forecast that our consolidated profit attributable to equity shareholders of the Company for the six months ending June 30, 2011 will be not less than RMB81 million. For the consolidated profit attributable to equity shareholders of the Company, we have estimated the fair value gain of biological assets to be nil for the Profit Forecast Period, because the Directors are of the view that the key parameters are not expected to change or will have immaterial impact on fair value during the Profit Forecast Period. We expect no changes, or changes will have immaterial impact on fair value, in terms of discount rate, log prices and operational costs. Furthermore, because our forests in Peru and Yunnan are mature trees, there is limited room for growth during the Profit Forecast Period. Therefore, we expect immaterial change in timber volume.

We have undertaken to the Hong Kong Stock Exchange that our interim financial report for the six months ending June 30, 2011 will be audited pursuant to Rule 11.18 of the Listing Rules. Set forth below is certain forecast data for our Company for six months ending June 30, 2011, which should be read in conjunction with Appendices II and III to this prospectus:

Forecast consolidated profit attributable to equity shareholders of the Company(1)	not less than RMB81 million
Unaudited pro forma forecast earnings per Share(2) (3)	not less than RMB0.05 (approximately HK$0.06)

Notes:

(1) The bases and assumptions on which the above profit forecast has been prepared are summarized in Appendix III to this prospectus.

(2) The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to equity shareholders of the Company for the six months ending June 30, 2011 and assuming that a total number of 1,493,339,990 Shares were in issue during the six months ending June 30, 2011.

(3) The unaudited pro forma forecast earnings per Share is converted to Hong Kong dollars at an exchange rate of RMB0.8509 to HK$1.00, the prevailing rate quoted by PBOC on December 31, 2010. You should not construe such conversion as a representation that the RMB amounts could actually be converted into HK dollar amounts as the rate indicated, or at all.

DIVIDENDS AND DIVIDEND POLICY

At December 31, 2008 and 2009 and 2010, we had a reserve of RMB371.9 million, RMB271.2 million and RMB867.8 million, respectively, available for distribution to equity shareholders of our Company.

We did not declare or pay any dividend during the years ended December 31, 2008 and 2009. On June 24, 2010, our Board declared the payment of dividends on our Shares of RMB63.1 million and dividends on our Preferred Shares of RMB37.8 million. The declaration of such dividends was approved by our shareholders on June 30, 2010 and the dividends were paid to the shareholders of our Shares and Preferred Shares in July 2010. On December 9, 2010, our shareholders approved and our Board declared the payment of dividends on our Shares of RMB62.3 million, which was paid in December 2010 and dividends on our Preferred Shares of RMB37.4 million, which was paid in December 2010. The aggregate dividend payment in 2010 in the amount of RMB200.6 million was paid out of our distributable reserves of RMB867.8 million.

Subject to the relevant law and our Articles of Association, we, through a general meeting, may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by our Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of a share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Future dividend payment will also depend upon the availability of dividends received from our subsidiaries in the PRC. PRC laws requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. The PRC laws also require foreign investment enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries in the PRC may also be restricted if they incur debts or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our subsidiaries in the PRC may enter into in the future.

The amount of dividend eventually declared and distributed to our Shareholders will also depend upon our earnings and financial performance, operating requirements, then capital commitments and requirements and other conditions that our Directors may deem relevant or appropriate. Subject to the limitations mentioned above, and in the absence of circumstances which might affect the amount of available distributable reserves, whether by losses or otherwise, our Board currently intends to distribute to our Shareholders as dividends approximately 25% of any distributable profit for each financial year, excluding net change in fair value gains or losses of biological assets.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules had the Shares been listed on the Hong Kong Stock Exchange on that date.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

Set forth below is an illustrative and unaudited pro forma statement of adjusted net tangible assets attributable to the equity shareholders of our Company which has been prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Global Offering as if it had taken place on December 31, 2010. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed at December 31, 2010 or any future date.

	Consolidated Net Tangible Assets of Our Group as at December 31, 2010(1)	Estimated Net Proceeds from the Global Offering(2)	Unaudited Pro Forma Adjusted Net Tangible Assets	Unaudited Pro Forma Adjusted Net Tangible Assets Per Share(3)	
	RMB in thousands	RMB in thousands	RMB in thousands	(RMB)	(HK$)
Based on the Offer Price of HK$2.95 per Share	1,341,645	858,704	2,200,349	1.47	1.73
Based on the Offer Price of HK$4.20 per Share	1,341,645	1,240,907	2,582,552	1.73	2.03

Notes:

(1) The consolidated net tangible assets of our Group as of December 31, 2010 is compiled based on the consolidated financial information included in the Accountants' Report as set out in Appendix I to this prospectus, which is based on the consolidated net assets of RMB1,342.2 million less intangible assets of RMB0.6 million.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.95 or HK$4.20, being the low-end or the high-end of the stated offer price range, per Offer Share after deduction of the underwriting fees and other related expenses payable by our Group, assuming no exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,493,339,990 Shares are in issue following the Global Offering (including the effect of the conversion of the Preferred Shares) but takes no account of any Shares which may be issued upon the exercise of the options under the Pre-IPO Share Option Scheme. The unaudited pro forma adjusted net tangible assets per Share is converted to Hong Kong dollars at an exchange rate of RMB0.8509 to HK$1.00, the prevailing rate quoted by PBOC on December 31, 2010. You should not construe such conversion as a representation that the RMB amounts could actually be converted into HK dollar amounts as the rate indicated, or at all.

MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial position or prospects since December 31, 2010, being the date to which our Company's latest consolidated audited financial results were prepared and there is no event since December 31, 2010 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.