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Web Proof Information Pack of

大自然地板
Nature

China Flooring Holding Company Limited

中國地板控股有限公司

(incorporated in the Cayman Islands with limited liability)

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CONTENTS

This information pack contains the following information relating to China Flooring Holding Company Limited extracted from an amended version of the post-hearing proof of the draft document.

This summary aims to give you an overview of the information contained in this document. As it is a summary, it does not contain all the information that may be important to you.

Overview

Products and Market Share

We are the largest wood flooring brand in China in terms of market share[1] by retail sales value of branded wood flooring products. According to Frost & Sullivan, our "Nature" branded products accounted for 6.5% market share in terms of China's total retail sales value of branded wood flooring products in 2009. Our branded products are manufactured through a combination of our own manufacturing facilities 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 the Frost & Sullivan, in 2009, our branded products ranked second in laminated flooring with a 7.2% market share, first in multi-layered engineered flooring with a 5.3% market share and first in solid wood flooring with a 7.4% market share, in terms of retail sales value in China. 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.

Notes:

(1) The market share data includes retail sales value of branded products manufactured at our own factories and by authorized manufacturers from whom we receive trademark and distribution network usage fees. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own factories accounted for 60.5%, 66.7% and 67.3% of the total Wholesale Volume of our branded products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 37.7%, 31.4% and 30.3%, respectively.

(2) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and greater than 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.

Product Manufacturing

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

Set forth below is the Wholesale Volume(1) of each product category of our branded products for the periods indicated:

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

Notes:

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

(2) Represents the percentage of the total Wholesale Volume of our branded products manufactured at our own factories and by authorized manufacturers combined.

(3) Flooring products are sold by square meters. There is no uniform size for the finished product of each product category as each product category may vary in length, width and height.

(4) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and greater than a majority of branded engineered flooring were manufactured by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1%, respectively.

Our Brands

Launched in 2001, our self-owned "Nature" (大自然) brand has been successfully positioned with consumers to represent high product quality and product safety as well as health and environmental awareness, which also reflect our core values and form the focus of our brand management and product strategy. Our industry-leading brand has received numerous awards and recognitions. For example, our "Nature" (大自然) brand was the only flooring brand ranked among China's 100 most valuable brands in 2010, according to the World Brand Laboratory. Leveraging on the success of the "Nature" (大自然) brand, we have introduced four sub-brands under the "Nature" (大自然) umbrella to target different customer segments — "Nature・Woodsbür" (大自然・德獅堡), "Nature・No. 1 My Space" (大自然・第一空間), "Nature・Aesthetics" (大自然・美學館) and "Nature・Yijia" (大自然・宜家), which were launched in 2007, 2007, 2008 and 2007, respectively. We believe the history and consumer recognition of the "Nature" (大自然) brand provides us with a significant competitive advantage, both in terms of attracting and retaining authorized manufacturers and exclusive distributors and of driving end market consumer demand.

Distribution Network

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

Branding Strategy

We believe our comprehensive branded product portfolios in the industry provides us with a competitive advantage in attracting distributors and retail consumers. As of December 31, 2010, our branded product portfolio consisted of over 1,000 product SKUs, covering the five most popular wood flooring categories in China (laminated flooring, engineered flooring, solid wood flooring, bamboo flooring and cork flooring) and targeting multiple customer segments across a wide range of price points. In 2010, the Wholesale Volume[1] of our branded laminated flooring, engineered flooring and solid wood flooring, each including products manufactured at our own factories and those manufactured by authorized manufacturers, accounted for 60.8%, 16.7%, and 20.1% of the total Wholesale Volume of our branded products, respectively. We have a proven track record of strong product development and innovative product design, which we believe differentiates us from our competitors. During the Track Record Period, we introduced over 100 new product SKUs to the

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

market each year, including developing and launching innovative new product types that lead the market. For example, we were one of the first companies in China to develop and launch eco flooring with 40 product SKUs in 2008. We also developed creative-style flooring with 200 product SKUs in 2009 and anion-zero-carbon flooring with 50 product SKUs in 2010.

Forestry Management and Harvesting

We began to selectively acquire strategic upstream forest assets in 2009 to secure reliable sources of timber. We acquired the rights to harvest approximately 46,347 hectares of standing timber located in Peru in December 2009 at a consideration of approximately RMB19.0 million. We completed the acquisition of standing trees and related concession rights in approximately 4,445 hectares of forests located in Yunnan Province, China in 2010 at a consideration of approximately RMB41.5 million. We recorded net change in fair value of our forest assets in Yunnan and Peru in 2009 and 2010, which was primarily due to the fair valuation of the Yunnan and Peru forest assets conducted by Pöyry being higher than the consideration that we paid for the acquisition, which was determined through arm's-length negotiation with the vendors based on the factors such as the suitability of the timber for wood flooring and the demand for wood flooring products made of such timber rather than market valuation.

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

	For the Year Ended December 31,		
	2008	2009	2010
	(RMB in thousands, except for percentages)		
Net change in fair value of biological assets	—	81,869	106,798
As a percentage of profit from operations	—	24.6%	24.5%

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

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

Trading Business

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

Financial Performance

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

Strengths

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

- Largest wood flooring brand, well positioned to strengthen our leading position in China's rapidly growing wood flooring market
- Industry-leading brand provides a significant competitive advantage
- Nationwide, exclusive distribution network supported by strong sales and marketing capabilities
- Comprehensive branded product portfolio supported by strong product development capabilities
- Effective use of authorized manufacturers enhances production flexibility and capital efficiency

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

Strategies

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

- Continue to invest in and strengthen our brand
- Continue to expand our distribution network and enhance our support for and management of our distributors
- Continue to expand and diversify our branded product portfolio to capture market opportunities and meet consumer preferences
- Continue to optimize our resources, supply chain management and our manufacturing capabilities
- Selectively expand into complementary product lines that can leverage our brand and network
- Selectively acquire strategic forest assets and pursue other acquisition and investment opportunities

Our Industry

According to Frost & Sullivan, China's flooring market has grown rapidly, but it is still at an early stage of development and remains significantly under penetrated, with approximately 71.0% of China's total available floorspace of 55.3 billion sq.m. not covered by any flooring products in 2009. The uncovered floorspace percentage is expected to decrease to 65.9% by 2014 as the penetration of flooring products continues. As of the end of 2009, wood flooring products were the second largest flooring product category in China, accounting for 10.0% of total installed floorspace and forecasted to increase to 16.4% by the end of 2014. Driven by changing consumer preferences, higher disposable income and improving living standards, wood flooring products have become increasingly popular.

As of the end of 2009, China's wood flooring market was the world's largest wood flooring market in terms of both retail sales volume and retail sales value of wood flooring. China's wood flooring market is primarily a consumer and retail driven market, where 90.0% of the retail sales volume was sold through retail stores in 2009. According to Frost & Sullivan, China's wood flooring market has the following key characteristics:

- brand is the most important consideration for retail consumers in purchasing wood flooring;
- retail stores are the primary sales channel for wood flooring products;
- retail consumers continue to drive market demand for wood flooring products; and
- fragmented market with increasing industry consolidation.

The annual retail sales value of China's wood flooring products reached RMB47.8 billion in 2009, representing a CAGR of 14.2% from 2005 to 2009 and is expected to grow at a CAGR of 19.3% from 2009 to 2014. The key drivers of growth are:

- rising disposable income of Chinese consumers;
- continued urbanization driving increased demand for housing;
- PRC government support and initiatives in housing;
- increasing renovation activities; and
- consumer preferences driving increasing penetration of wood flooring.

China's wood flooring market is comprised primarily of three key product segments: laminated flooring, engineered flooring and solid flooring. According to Frost & Sullivan, solid wood flooring has been the largest product segment in terms of retail sales value during the past five years and laminated flooring is expected to become the largest product segment in China's wood flooring market by 2014. According to Frost & Sullivan, in 2009, "Nature" (大自然) 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[(1)]. See "Business — Our Branded Products".

(1) 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 greater than 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% of the total Wholesale Volume of our branded engineered flooring products, respectively.

Summary Historical Financial Information

The summary historical consolidated statements of comprehensive income data for the years ended December 31, 2008 and 2009 and 2010 and the summary historical consolidated balance sheets data at December 31, 2008, 2009 and 2010 set forth below have been prepared in accordance with IFRS and have been derived from the Accountants' Report included in Appendix I to this document. You should read the summary historical financial information below in conjunction with "Appendix I — Accountants' Report," including the notes thereto.

Consolidated Statement of Comprehensive Income

	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	—
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%**

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Consolidated balance sheets

	At December 31,		
	2008	2009	2010
	(RMB in thousands)		
Non-current assets			
Property, plant and equipment	210,204	371,369	354,960
Intangible assets	—	165	622
Lease prepayments	58,144	61,754	67,672
Biological assets	—	100,848	246,211
Investments in equity securities	—	—	15,200
Other receivables	46,380	14,028	3,237
Deferred tax assets	—	8,535	6,739
Total non-current assets	**314,728**	**556,699**	**694,641**
Current assets			
Inventories	218,855	339,013	279,636
Trade and other receivables	377,263	465,737	564,298
Pledged deposits	17,543	22,389	43,462
Cash and cash equivalents	104,133	200,075	297,652
Total current assets	**717,794**	**1,027,214**	**1,185,048**
Current liabilities			
Trade and other payables	150,329	285,216	193,387
Loans and borrowings	15,000	597,176	183,458
Obligations under finance leases	2,096	—	—
Income tax payables	5,571	6,275	18,796
Total current liabilities	**172,996**	**888,667**	**395,641**
Net Current Assets	**544,798**	**138,547**	**789,407**
Total Assets Less Current Liabilities	**859,526**	**695,246**	**1,484,048**
Non-current liabilities			
Loans and borrowings	490,645	68,311	103,481
Deferred tax liabilities	—	29,818	38,300
Total non-current liabilities	**490,645**	**98,129**	**141,781**
Net Assets	**368,881**	**597,117**	**1,342,267**
Capital and Reserves			
Share capital	490	490	775
Reserves	368,391	596,627	1,341,492
Total equity	**368,881**	**597,117**	**1,342,267**

Profit Forecast for the Six Months Ending June 30, 2011

In the absence of unforeseen material adverse circumstances and on the bases and assumptions set out in "Appendix III — Profit Forecast" to this document, 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 a short period from the date of this document to six months ending June 30, 2011. Therefore, we expect immaterial change in timber volume.

Our History and Development

The history of our "Nature" (大自然) brand can be traced back to 2001 when Mr. She Chang (佘昌), the father of one of our co-founders, Mr. Se Hok Pan (佘學彬), created the "Nature" (大自然) brand and a network of distributors in Shunde, China for his solid wood flooring business. In October 2004, our co-founders, Mr. Se Hok Pan and Ms. Un Son I, established Zhongshan Nature, which subsequently became our wholly-owned subsidiary. Our first factory for laminated flooring commenced operation in April 2005.

In 2007, we began the Reorganization to streamline the structure of our Group, whereby Mr. Se Hok Pan and Ms. Un Son I transferred, directly or through the companies owned by them, their respective interests in our then subsidiaries to our Company. The Reorganization was completed on May 8, 2008 and our Company became the holding company of our Group.

On May 8, 2008, we issued to MS Flooring the MS Convertible Notes at a consideration of US$50 million and one Special Share at the nominal consideration of US$0.001. On May 29, 2008, we issued to IFC the IFC Convertible Notes at a consideration of US$20 million.

In March 2009, Mr. Se transferred 8.69% of the shares in Freewings to Mr. She Jian Bin at nil consideration as a gift to his family member.

The Special Share gives MS Flooring no rights other than the right to vote at shareholders meetings of our Company with respect to certain specified reserved matters. MS Flooring and IFC were also given customary minority shareholders' rights, such as pre-emptive rights, anti-dilution adjustments, tag-along rights, restrictions on transfer, reserved matters, information rights and minority protection rights. In addition, our Company and the Controlling Shareholders provide certain indemnities to MS Flooring and IFC, including in relation to undisclosed liabilities of our Group, liability of our Directors who are appointed by MS Flooring and IFC, and tax and any other losses suffered by MS Flooring or IFC in their capacity as our Shareholders prior to ●, and the obligations of our Company under the Shareholders' Agreement and related documents are guaranteed by the Controlling Shareholders. The rights granted to MS Flooring and IFC will be terminated upon completion of ● except for certain rights. Such rights do not give any preferential treatment to MS Flooring and IFC in respect of non-public price sensitive information. For details of such rights, see "History and Development — Investment by MS Flooring, IFC and Headland HAV3".

On June 30, 2010, both MS Flooring and IFC elected to convert all of their Convertible Notes into Preferred Shares and, as a result of certain financial performance targets under the Shareholders' Agreement not being met in respect of the consolidated net income of our Group for the years ended December 31, 2008 and December 31, 2009, Freewings transferred 298,212 Shares to MS Flooring and 119,285 Shares to IFC at a consideration of US$1 in each case. Prior to ●, MS Flooring and IFC will convert all of the outstanding Preferred Shares into 29,999,999 Shares and 12,000,000 Shares, respectively. As a result of certain financial performance targets being met in respect of the consolidated net income of our Group for the year ended December 31, 2010, MS Flooring and IFC will, prior to ●, transfer 3,298,212 Shares and 1,319,285 Shares, respectively to Freewings, at a consideration of US$1 in each case, so that, immediately prior to ● and the Capitalization Issue, MS Flooring and IFC will hold 26,999,999 Shares and 10,800,000 Shares, respectively. Upon conversion of the outstanding Preferred Shares in full, in accordance with their terms, our Company will redeem and cancel the Special Share for a redemption price equal to the par value of the Special Share, being US$0.001.

Freewings transferred 2,307,827 Shares to Headland HAV3 on September 30, 2010 at a consideration of RMB80 million. Following completion of ●, Freewings will pay to Headland HAV3 an amount of RMB2,999,232, as a result of certain financial performance targets under the Headland HAV3 SPA not being met in respect of the consolidated net income of our Group for the year ended December 31, 2010. If the pre-money valuation of our Company at the time of ● falls below Headland HAV3's implied valuation of our Company at the time of its investment, Freewings will pay to Headland HAV3 an additional amount to be calculated in accordance with the terms of the Headland HAV3 SPA.

For further details of our history and reorganization and the investment by MS Flooring, IFC and Headland HAV3, please refer to the section headed "History and Development — Investment by MS Flooring, IFC and Headland HAV3" to this document.

Dividends

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 and dividends on our Preferred Shares of RMB37.4 million, respectively, both of which were 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.

Previous Share Option Scheme

The Previous Share Option Scheme was adopted on December 16, 2008, and subsequently amended on June 30, 2010 and April 26, 2011, for the purpose of incentivizing the employees of Group. The outstanding options granted under the Previous Share Option Scheme involve 3,231,543 Shares (pre-Capitalization Issue and ●) or ● Shares (post-Capitalization Issue and ●), representing approximately ●% of the issued share capital of our

Company immediately after the Capitalization Issue and the ● (assuming the ● and the options granted under the Previous Share Option Scheme are not exercised). Assuming that all the options granted under the Previous Share Option Scheme had been exercised in full during the six months ending June 30, 2011 and that ● Shares, comprising ● Shares to be in issue immediately upon the ● and ● Shares to be issued upon the exercise of all the options granted under the Previous Share Option Scheme, were deemed to have been in issue throughout the six months ending June 30, 2011, but not taking into account any Shares which may be allotted and issued upon exercise of the ●, there will be a dilution effect.

The options granted under the Previous Share Options Scheme represent approximately ●% of the enlarged issued share capital of our Company immediately after the ● and the Capitalization Issue (assuming the ● is not exercised). If all the options are exercised, there would be a dilution effect on the shareholdings of our shareholders of approximately ●%.

An amount of HK$1.00 (or any equivalent amount in RMB) is payable by the option-holder upon acceptance of the grant of options.

We have applied for, and have been granted an exemption from strict compliance with the disclosure requirements in connection with the information of the options granted under the Previous Share Option Scheme on the ground that full compliance with such disclosure requirements would be unduly burdensome for our Company and would be of little significance or relevance to potential ●.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme, the purpose of which is to provide incentivize and reward the employees, directors, customers and suppliers of our Group, business or joint venture partners and certain advisers to our Group and their respective employees. See "Appendix IX — Statutory and General Information — Share Option Schemes — Share Option Scheme".

Risk Factors

Risks Relating to Our Business

- Significant disruptions to the operations of authorized manufacturers could materially and adversely affect our business, financial condition and results of operations.

- We are subject to reputational risks related to the manufacturing of our branded products by authorized manufacturers.

- Any disruption in our relationship with authorized manufacturers could adversely affect our business.

- There may be competition between us and authorized manufacturers in selling our branded products.

- We rely on our "Nature" (大自然) flagship brand and sub-brands. If we fail to manage our brands effectively, our business, result of operations and growth prospects could be materially and adversely affected.

- We rely on our distributors for the sale of our branded products. If we fail to manage our distributors effectively, our reputation, business, financial condition and results of operations could be materially and adversely affected.

- The loss of, or the deterioration of relationships with, our distributors could significantly harm our revenue and results of operations.

- Disruptions in our supply of raw materials could materially and adversely affect our business, financial condition and results of operations.

- Higher raw materials prices may affect our financial performance.

- Our branded products may fail to perform as expected or contain defects, and these failures or defects, and any negative publicity or product liability claims which may result, could materially and adversely affect our business, financial condition and results of operations.

- We may not be able to accurately anticipate or timely respond to changes in consumer tastes and preferences for wood flooring products.

- Our failure to adequately protect our intellectual property rights or any infringement claims against us brought by third parties may have a material and adverse effect on our business, financial condition and/or results of operations.

- Our operations may be materially and adversely affected by environmental regulations.

- Our operations rely on a continuous power supply and any shortages or interruptions could disrupt our operations and increase our expenses.

- We are subject to the risks associated with our manufacturing activities.

- We are subject to certain risks associated with the transportation and warehousing of our branded products.

- Any inability to renew or secure new forest concessions upon their expiration or termination could affect the stability of the timber supply for our business.

- Our planned commercial logging activities are subject to regulatory approvals, restrictions and uncertainties.
- Changes in fair value of our forest assets could result in significant fluctuations in our profit from operations.
- We may face increased costs for new forest acquisitions.
- We face risks associated with the overseas sale of wood flooring products as well as the overseas purchase of timber, and if we are not able to effectively manage these risks, our trading business will be materially and adversely affected.
- We may not be able to obtain external financing in time or on terms acceptable to us for our capital expenditure and other corporate needs, which could limit our ability to grow our business.
- Our insurance coverage may not be sufficient to cover the risks related to our operations and losses.
- We may not continue to enjoy certain favorable PRC governmental policies.
- We may fail to develop and implement our growth strategy or effectively manage our growth, which would in turn have a material and adverse effect on our business and results of operations.
- We may encounter difficulties when expanding into new markets and new product lines.
- We may encounter difficulties in expanding into the upstream forestry management and harvesting business, which may adversely affect our results of operations and financial condition.
- We and authorized manufacturers may experience a shortage of labor, an increase in labor costs and be exposed to labor disputes, which would have a material and adverse effect on our business and results of operations.
- We may not be able to derive the desired benefits from our product development efforts.
- We may be required to seek alternative premises for some of our warehouses, production facilities, offices or staff canteen due to our or our landlords' lack of relevant title certificates.
- Our information technology systems are important to our operations. A system failure or breakdown may cause interruptions of our business and operation.
- Our success depends on the continuing efforts of our senior management team and other key personnel and on our ability to successfully attract, train and retain additional key personnel.
- We will continue to be controlled by our Controlling Shareholders, whose interests may differ from those of our other Shareholders.

Risks Relating to the Industry in Which We Operate

- Changes in the market demand for wood flooring products could materially and adversely affect our business, financial condition and results of operations.
- Our results of operations may vary throughout the year as a result of seasonal demand for our products.
- Our industry experiences intense competition.

Risks Relating to Doing Business in China

- China's economic, political and legal conditions, as well as governmental policies, could affect our business, financial condition and results of operations.
- Uncertainties presented by the Chinese legal system could limit the legal protections available to us, which may have a material and adverse effect on our business and results of operations.
- You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.
- We rely partially on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitations on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.
- Government control over currency conversion may limit our ability to issue dividends to our shareholders in foreign currencies, and may, therefore, adversely affect the value of your investment.
- Fluctuations in the value of the Renminbi may have a material and adverse effect on your investment.
- The M&A Rule may make it more difficult for us to make future acquisitions or dispositions of our business operations or assets in China.
- PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liabilities or penalties, limit our ability to contribute capital to our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.
- A failure to comply with PRC regulations regarding the registration of shares and share options held by our employees who are PRC citizens may subject such employees or us to fines and other legal or administrative sanctions.
- Under the New EIT Law, we may be considered a PRC "resident enterprise." As a result, we may be subject to 25% PRC income tax on our worldwide income, and

holders of our Shares may be subject to PRC tax on dividends paid by us and gains realized on their transfer of Shares.

- Dividends to be paid by our PRC subsidiaries to our Hong Kong subsidiaries may not qualify to enjoy the preferential withholding tax treatment under the relevant treaty due to significant uncertainties under the New EIT Law and related rules.

- Any future occurrence of natural disasters or outbreaks of contagious diseases in China may have a material and adverse effect on our business, financial condition and results of operations.

- We cannot guarantee the accuracy of facts and statistics derived from PRC official government publications with respect to China, China's economy and the its wood flooring industry contained in this document.

DEFINITIONS AND CONVENTIONS

In this document, unless the context otherwise requires, the following terms and expressions shall have the meanings set out below.

"Articles of Association" or "Articles"	the articles of association conditionally adopted by the Company, a summary of which is set forth in "Appendix VII — Summary of the Constitution of Our Company and Cayman Islands Companies Law" in this document
"Board" or "Board of Directors"	the board of directors of the Company
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"Capitalization Issue"	the issue of shares upon capitalization of certain sum standing to the credit of the share premium account of our Company referred to in the paragraph headed "Appendix IX — Statutory and General Information — Further Information about our Company and our Subsidiaries — Written resolutions of all our Shareholders passed on May 3, 2011" in this document
"Cayman Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"China" or "PRC"	the People's Republic of China, but for the purpose of this document and for geographical reference only and except where the context requires, references in

	this document to "China" and the "PRC" do not include Taiwan, Hong Kong and Macau
"Controlling Shareholders"	unless the context otherwise requires, in the context of this document refers to Freewings and the Ultimate Controlling Shareholders
"Convertible Notes"	IFC Convertible Notes and the MS Convertible Notes
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
"Directors"	the director(s) of the Company, including all executive, non-executive and independent non-executive Directors
"FSC"	Forest Stewardship Council
"forecast period"	the period comprising years from 2010 to 2014 used in the Frost & Sullivan Report
"Freewings"	Freewings Development Co., Ltd., an investment holding company incorporated under the laws of BVI on April 1, 2008 and a Controlling Shareholder
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., a global market research and consulting company, which is an independent third party
"Frost & Sullivan Report"	a report dated February 2011; we commissioned Frost & Sullivan to prepare regarding wood flooring market in China and a consumer survey to understand consumer behavior and company brand awareness
"GDP"	gross domestic product
"Group", "the Group" or "our Group"	the Company and its subsidiaries
"Guangdong Weihua"	Guangdong Weihua Corporation (廣東威華股份有限公司), a company listed on the Shenzhen Stock Exchange
"Guangdong Yingran"	Guangdong Yingran Wood Industry Co., Ltd. (廣東盈然木業有限公司), a limited liability company established in the PRC on January 16, 2007, which is engaged

	in the manufacturing of laminated flooring and an indirect wholly-owned subsidiary of the Company
"Hailin Yingtai"	Yingtai (Hailin) Wood Industry Co., Ltd. (海林盈泰木業有限公司), a limited liability company established in the PRC on May 16, 2007, which is engaged in the manufacturing of branded three-layered engineered flooring and wholly-owned by Asia Hero Enterprises Limited, which was a wholly-owned subsidiary of the Company prior to December 2010
"Headland HAV3"	HAV3 (9) Limited, an exempted company incorporated in the Cayman Islands with limited liability on August 30, 2010, which is an investment holding company and a direct shareholder of our Company
"Headland HAV3 SPA"	a sale and purchase agreement dated September 24, 2010 made amongst Freewings, Mr. Se Hok Pan, and Headland HAV3 for the sale to Headland HAV3 of 2,307,827 Shares held by Freewings
"HK$", "HK dollars" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Companies Ordinance"	the Hong Kong Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time)
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited

"Hubei Xiangfan"	Hubei Xiangfan Yingfu Xinsheng Flooring Co., Ltd. (湖北襄樊盈福新盛地板有限公司), a limited liability company established in the PRC on July 15, 2010, 19% equity of which is held by the Company
"IAS"	International Accounting Standards and their interpretations
"IASB"	the International Accounting Standards Board
"IFC"	International Finance Corporation, member of the World Bank Group and a direct shareholder of our Company
"IFC Convertible Notes"	convertible notes issued to IFC by our Company on May 29, 2008
"IFRS"	International Financial Reporting Standards promulgated by the IASB, which include IAS
"ISO"	the International Organization for Standardization, a non-government organization based in Geneva, Switzerland, for assessing the quality of business organizations
"Jiangxi Forest"	Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司), a limited liability company established in the PRC on June 30, 2009, which is

	engaged in the plantation business and an indirect wholly-owned subsidiary of the Company
"Jiangxi Nature"	Jiangxi Nature Wood Based Panels Co., Ltd. (江西大自然人造板有限公司), a limited liability company established in the PRC on April 22, 2008, which is engaged in the manufacturing of fibreboard and an indirect wholly-owned subsidiary of the Company
"Jiangxi Yingran"	Jiangxi Yingran Wood Industry Co., Ltd. (江西盈然地板有限公司), a limited liability company established in the PRC on July 15, 2008, which is engaged in the manufacturing of laminated flooring and an indirect wholly-owned subsidiary of the Company
"Kunshan Nature"	Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司), a limited liability company established in the PRC on December 29, 2006, which is engaged in the manufacturing of engineered flooring and an indirect wholly-owned subsidiary of the Company
"Latest Practicable Date"	May 9, 2011, the latest practicable date for the purposes of ascertaining certain information for inclusion in this document
"Liaoning Tai'an"	Liaoning Tai'an Yingfu Xinsheng Flooring Co., Ltd. (遼寧台安盈福新盛地板有限公司), a limited liability company established in the PRC on July 14, 2010, 19% equity of which is held by the Company
"Macau"	the Macau Special Administrative Region of the People's Republic of China

"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company as currently adopted
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOP"	Macau Pataca, the lawful currency of Macau
"MS Convertible Notes"	convertible notes issued to MS Flooring by our Company on May 8, 2008
"MS Flooring"	MS Flooring Holding Co., Ltd, an exempted company incorporated in the Cayman Islands with limited liability on April 10, 2008, which is an investment holding company and a direct shareholder of our Company
"MSPEA III"	Morgan Stanley Private Equity Asia III, L.P., a limited partnership established under the laws of the Cayman Islands on March 28, 2007, which is engaged in investment and related activities and is the majority shareholder of MSPEA III Cayman
"MSPEA III Cayman"	Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd, an exempted company incorporated in the Cayman Islands with limited liability on May 9, 2007, which is an investment holding company and the sole shareholder of MS Flooring
"MSPEA III GP"	Morgan Stanley Private Equity Asia III, L.L.C., a limited liability company incorporated under the laws of Delaware on February 6, 2007, and which is the general partner of MSPEA III
"MSPEA III Inc."	Morgan Stanley Private Equity Asia III, Inc., a company incorporated under the laws of Delaware on January 17, 2007, which is engaged in investment advisory services and which is the managing member of MSPEA III GP
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

"PBOC"	People's Bank of China (中國人民銀行), the central bank of China
"Pöyry"	Pöyry (Beijing) Consulting Co., Ltd., Shanghai Branch, an independent valuation firm
"PRC Company Law"	Company Law of the PRC (《中華人民共和國公司法》), as adopted at the Fifth Session of the Standing Committee of the Eighth National People's Congress on December 29, 1993, effective July 1, 1994, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	the PRC Accounting Standards and Accounting Regulations for Business Enterprises and its supplementary regulations
"PRC Government" or "State"	the central government of the PRC including all political subdivisions (including provincial, municipal and other local or regional government entities) and organizations of such government or, as the context requires, any of them
"Previous Share Option Scheme"	the Previous share option scheme of our Company approved and adopted by a written resolution passed by our then shareholders on December 16, 2008, which was subsequently amended pursuant to a written resolution passed by our then shareholders on June 30, 2010 and a written resolution passed by the Board on April 26, 2011, the principal terms of which are set out in the paragraph headed "Appendix IX — Statutory and General Information — Share Option Schemes — Previous Share Option Scheme" to this document
"Preferred Share(s)"	the voting preferred share(s) having a par value of US$0.001 each in the capital of our Company
"Principal Share Registrar"	Butterfield Fulcrum Group (Cayman) Limited
"Profit Forecast Period"	the period comprising the six months ending June 30, 2011
"Province" or "province"	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC

"Reorganization"	the reorganization of our Group, details of which are set out in the paragraph headed "History and Development — Reorganization" in this document
"Retail Stores"	retail stores owned and operated by our distributors to sell our branded products
"RMB" or "Renminbi"	Renminbi Yuan, the lawful currency of the PRC
"S/."	Nuevos Soles, the lawful currency of Peru
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Share Adjustments"	the transfer of 3,298,212 Shares and 1,319,285 Shares by MS Flooring and IFC, respectively to Freewings prior to completion of ● and the Capitalization Issue, in each case pursuant to the Shareholders' Agreement, details of which are set out in the paragraph headed "History and Development — Investment by MS Flooring, IFC and Headland HAV3" in this document
"Share Option Scheme"	the share option scheme conditionally adopted by our Company pursuant to a resolution passed by our then shareholders on May 3, 2011, the principal terms of which are set out in the paragraph headed "Appendix IX — Statutory and General Information — Share Option Schemes — Share Option Scheme" in this document
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Agreement"	the amended and restated shareholders and note holders agreement between our Company, MS Flooring, IFC, and the Controlling Shareholders (other than Mr. She Jian Bin, Team One Investments and Trader World) dated May 21, 2008

"Share(s)"	the ordinary share(s) having a par value of US$0.001 each in the capital of our Company
"SKU"	Stock-Keeping Unit, a number or code used by our Group to identify each distinct product that can be purchased
"Special Share"	the special share of par value US$0.001 in the capital of our Company
"sq.m."	square meters
"State Council"	the PRC State Council (中華人民共和國國務院)
"Team One Investments"	Team One Investments Limited, an investment holding company incorporated under the laws of BVI on March 1, 2011, a Controlling Shareholder, the entire issued share capital of which is owned by Mr. Se Hok Pan
"Track Record Period"	the period comprising the three years ended December 31, 2010
"Trader World"	Trader World Limited, an investment holding company incorporated under the laws of BVI on March 1, 2011, a Controlling Shareholder, the entire issued share capital of which is owned by Ms. Un Son I
"Ultimate Controlling Shareholder"	each of (1) Mr. Se Hok Pan (2) Ms. Un Son I (3) Mr. She Jian Bin (4) Mr. Chow Chi Keung Savio (5) Mr. Nam Cheung Ming Louis (6) Team One Investments (7) Trader World

"United States" or "US" or "U.S." or "U.S.A"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"VAT"	value-added tax
"Wholesale Volume"	the volume of our branded flooring products that we and/or authorized manufacturers, as applicable, sell directly to our exclusive distributors, property development companies and home furnishing supermarkets in China, excluding an immaterial portion of our branded products sold overseas
"Zhangjiagang Nature"	Nature (Zhangjiagang) Wood Industry Co., Ltd. (大自然(張家港)木業有限公司) a limited liability company established in the PRC on March 3, 2008 and an indirect wholly-owned subsidiary of the Company engaged in the manufacturing of solid wood raw materials and veneer
"Zhongshan Nature"	Nature (Zhongshan) Wood Industry Co., Ltd. (中山市大自然木業有限公司), a limited liability company established in the PRC on October 13, 2004 and an indirect wholly-owned subsidiary of the Company engaged in the manufacturing of laminated flooring

In this document:

- the "Company," "we," "us," "our" and "our Company" refer to China Flooring Holding Company Limited (中國地板控股有限公司), an exempted company incorporated under the laws of the Cayman Islands, and, unless the context otherwise requires, the subsidiaries of China Flooring Holding Company Limited (中國地板控股有限公司);
- "our branded products" refer to products bearing our brands manufactured at our own manufacturing facilities and/or by authorized manufacturers;
- a "business day" is a day that is not Saturday, Sunday or public holiday in Hong Kong;
- "county-level cities" refer to county-level cities under China's administrative division system. As an administrative division unit, a county-level city is generally directly below and under the direct supervision of its corresponding municipal-level or provincial-level government;

- the terms "associate," "connected person," "connected transaction," "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the ●, unless the context otherwise requires;

- an "independent third party" is an individual or a company who or which is not connected (within the meaning of the ●) with any director, chief executive or substantial shareholders (within the meaning of the ●) of our Company, its subsidiaries or any of their respective associates;

- certain amounts and percentage figures included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them;

- for illustration purpose only and unless otherwise stated, certain amounts denominated in Renminbi are translated into HK dollars at an exchange rate of RMB0.8363 to HK$1.00, rounded from the exchange rate set by the PBOC for foreign exchange transactions prevailing on May 6, 2011. Such conversions shall not be construed as representations that amounts in Renminbi were or may have been converted into HK dollars at such rates or any other exchange rates or at all; and

- translated English names of Chinese, Peruvian and Macanese laws and regulations, governmental authorities, departments, entities, institutions, natural persons, facilities, certificates, titles and the like included in this document and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese, Peruvian or Macanese names (as the case may be) prevail.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and operating plans;
- our investment and capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- our financial condition and results of operations;
- our prospective financial information; and
- the industry regulatory environment as well as the industry outlook generally.

The words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "seek," "will," "would" and similar expressions, as they relate to our Company, are intended to identify these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in "Risk Factors." Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way our Company expects, if at all.

We do not intend to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. All forward-looking statements contained in this document are qualified by reference to this cautionary statement.

You should carefully consider all of the information in this document, including the risks and uncertainties described below. You should also pay particular attention to the fact that we conduct a majority of our operations in the PRC and own certain forest assets in China and Peru and are governed by legal and regulatory systems which may differ from which that prevails in other countries. For more information concerning the PRC and Peruvian legal and regulatory systems and certain related matters discussed below, see "Appendix VIII — Summary of Principal PRC and Peruvian Legal and Regulatory Provisions."

RISKS RELATING TO OUR BUSINESS

Significant disruptions to the operations of authorized manufacturers could materially and adversely affect our business, financial condition and results of operations.

Our branded products are manufactured through a combination of our own manufacturing factories and exclusive authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own manufacturing 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% of the total Wholesale Volume of our branded products, respectively. See "Business — Our Branded Products". In addition, we added two joint venture authorized manufacturers in January 2011 to manufacture our branded laminated flooring which commenced operations in April 2011. See "Business — Manufacturing — Authorized Manufacturing Network." Authorized manufacturers manufacture only our branded products and must sell the products exclusively to distributors in our distribution network, for which we charge trademark and distribution network usage fees. Authorized manufacturers operate independently from us, although we provide technical and logistics support and conduct periodic quality control checks. 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. As we grow our business, 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 selectively expanding and upgrading certain of our own manufacturing facilities in order to maintain a strategic mix of manufacturing capacity.

Fees we charge authorized manufacturers are based on their production volume, production capacity, sales volume and revenues of our branded products. Therefore, if authorized manufacturers experience significant disruptions to their operations, they may not be able to maintain or increase their production volume or capacity, or they may suffer a significant reduction in their output and sales, any of which could in turn materially and adversely affect our revenue, overall business, financial condition and results of operations. During the Track Record Period, we replaced one underperforming authorized manufacturer and one authorized manufacturer which closed its business. See "Business — Manufacturing — Authorized Manufacturing Network." The factors that may disrupt the operations of authorized manufacturers (as well as our own production facilities) include:

- disruptions in raw material supply and increases in raw material prices, particularly timber;

- significant defaulted payments from their customers;
- shortages or interruptions of power supply;
- operational risks relating to the production of wood flooring products;
- restrictions or requirements imposed by increasingly stringent environmental regulations or policies; and
- failure to obtain financing on commercially favorable or acceptable terms, or at all.

In addition, any other risk described in this section relating to the operations of our own factories may also affect the operations of authorized manufacturers, which in turn could have a material and adverse effect on our business.

Furthermore, significant disruptions to the operations of authorized manufacturers could adversely affect their payment abilities. We generally grant authorized manufacturers payment terms of 120 to 180 days. The delay between the time our fee is generated and when it is collected may expose us to risks of negative developments in the payment abilities of authorized manufacturers. If authorized manufacturers experience significant disruptions in their operations during the delay, they may not able to pay us fees on time or at all, as a result of which we may incur direct losses, and our business, financial condition and results of operations may be materially and adversely affected.

We are subject to reputational risks related to the manufacturing of our branded products by authorized manufacturers.

All products manufactured by authorized manufacturers are labeled with our trademarks. Therefore, our reputation may be adversely affected if these products contain defects, fail to satisfy applicable contractual or regulatory requirements or specifications, or otherwise result in product liability or other types of litigation or proceedings against authorized manufacturers or us. In addition, because products manufactured by authorized manufacturers are sold exclusively to distributors in our distribution network, who in turn primarily sell these products to retail consumers through the Retail Stores, the occurrence of any of the foregoing could make our distribution network less attractive to potential distributors as well as adversely affect the loyalty of existing distributors. We cannot assure you that our quality control measures with respect to products manufactured by authorized manufacturers will always be effective. If the products manufactured by authorized manufacturers bearing our trademarks have defects or otherwise do not meet our quality control standards, our reputation and brand image would be materially and adversely affected.

Any disruption in our relationship with authorized manufacturers could adversely affect our business.

Our business model and growth strategy substantially depend on the use of authorized manufacturers. As of December 31, 2008, 2009 and 2010, we had relationships with six, eight and ten (excluding the two joint venture authorized manufacturers which commenced operations in April 2011) authorized manufacturers, respectively. Our agreements with authorized manufacturers typically have a one-year term and contain various requirements relating to, among others, product quality and brand protection. If our relationships with existing authorized manufacturers suffer or the relevant agreements are not renewed upon expiration or terminated by us due to a material breach by authorized manufacturers, we will have to find suitable replacement authorized manufacturers. However, we may not be able to find suitable authorized manufacturers on a timely basis or at all and may require substantial time and expense to qualify such authorized manufacturers. In addition, our strategy of partnering with additional authorized manufacturers to manufacture an increasing proportion of our branded products across our portfolio will increase our reliance on authorized manufacturers.

There may be competition between us and authorized manufacturers in selling our branded products.

During the Track Record Period, both we and authorized manufacturers manufactured our branded engineered flooring products. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1% of the total Wholesale Volume of our branded engineered flooring products, respectively. The two joint venture authorized manufacturers which commenced operations in April 2011 manufacture our branded laminated flooring. As authorized manufacturers are obligated to sell our branded products to our exclusive distributors to whom we sell products manufactured at our own factories, there may be competition between us and authorized manufactures in selling products to the same group of distributors. Such competition may relate to, among other factors, the pricing of the products.

We rely on our "Nature" (大自然) flagship brand and sub-brands. If we fail to manage our brands effectively, our business, results of operations and growth prospects could be materially and adversely affected.

All of the flooring products manufactured by us and authorized manufacturers are marketed and sold under our flagship brand "Nature" (大自然) or sub-brands "Nature・Woodsbür" (大自然・德獅堡), "Nature・No. 1 My Space" (大自然・第一空間), "Nature・Aesthetics" (大自然・美學館) and "Nature・Yijia" (大自然・宜家). As a result, our business substantially depends on our ability in managing our brands to increase brand recognition, protect brand identity and enhance overall brand image. Our success in effectively managing our brands depends on a number of factors, including:

- the success of our advertising and other marketing activities;
- our ability to protect our brand from counterfeit products sold using our brand name;
- our ability to manage our distributors and Retail Stores that they operate; and
- our ability to manage the quality of our branded products manufactured at our own factories and by authorized manufacturers.

According to Frost & Sullivan, brand is the most important consideration for China's retail consumers in purchasing wood flooring products. If our brand management efforts are not consistently effective, for example, or if we fail to manage the quality of our branded products or our manufacturing process in accordance with our standard and applicable regulations, the market recognition and acceptance of our branded products may deteriorate, and authorized manufacturers and distributors may terminate or choose not to renew their agreements or relationships with us, which in turn could adversely affect our sales volume, results of operations and growth prospects.

We rely on our distributors for the sale of our branded products. If we fail to manage our distributors effectively, our reputation, business, financial condition and results of operations could be materially and adversely affected.

Our branded products are manufactured at our own factories and by authorized manufacturers and are primarily sold to our distributors on a wholesale basis, who in turn primarily sell these products to retail consumers through their managed and operated Retail Stores. In 2008, 2009 and 2010, 93.6%, 91.9% and 89.4% of the Wholesale Volume of our branded products were sold to our distributors. Accordingly, our success depends on our ability to effectively manage distributors.

To manage our distributors, we impose various requirements on the key aspects of their operations, including those with respect to the decoration and service standards of the Retail Stores, exclusivity, brand protection, performance targets, pricing and after-sale services. See "Business — Sales and Distribution — Management of Our Distributors." However, we cannot assure you that our distributors will comply with all or any of these requirements.

Due to the size of our distribution network, we may not be able to effectively supervise all of our distributors to ensure compliance with our requirements. As of December 31, 2010, our distribution network comprised over 2,100 distributors and 2,900 Retail Stores. Given the large number of our distributors and Retail Stores, we may fail to monitor their activities and therefore, in the event of a non-compliance, we may not be able to react timely, or at all, to prevent continued or re-occurring non-compliance. In addition, given the growth of our businesses, many new distributors have joined our distribution network. Those new distributors have a shorter business relationship with us thus far and may not be able to comply with our distribution policies or manage sales as effectively as the distributors that have a longer business relationship with us. Furthermore, not all of our distributors have entered into written distribution agreements with us. Although we issue a distributor certificate to each of our distributors and may terminate the distributor certificate if the relevant distributors do not comply with our requirements, the fact that we do not have written contractual relationship with certain distributors may adversely affect our ability to manage our such distributors.

If our distributors fail to comply with our requirements, or we fail to oversee their compliance, our distribution network may be disrupted. As a result, our business, financial condition and results of operations may be materially and adversely affected.

The loss of, or the deterioration of relationships with, our distributors could significantly harm our revenue and results of operations.

We generally enter into standard one-year distribution agreements with our distributors, renewable at expiration by mutual agreement. Since we do not have long-term agreements with our distributors, it is possible that their agreements with us will not be renewed on commercially acceptable terms, or at all. In addition, we have not entered into written distribution agreements with certain of our distributors. As the competition for distributors intensifies within the industry, our competitors may offer better terms than we do. In addition, we may fail to manage our brand successfully, which may render our distribution network less attractive. Any of these or other reasons may cause our distributors to leave our distribution network. We cannot assure you that our measures to strengthen the loyalty of our distributors will be effective in retaining our distributors. If our distributors terminate or choose not to renew the distribution agreements with us or otherwise leave our distribution network, we may not be able to find new distributors in a timely manner, or on terms commercially acceptable to us, or at all. In addition, the new distributors may not be able to manage sales as effectively as the distributors that they replaced. For these reasons, the loss of, or the deterioration of our relationships with, our distributors may materially and adversely affect our results of operations and growth prospects.

Disruptions in our supply of raw materials could materially and adversely affect our business, financial condition and results of operations.

The principal raw materials used in our manufacturing operations include timber, veneers, fiberboards and plywood. We purchase a portion of fiberboards and veneers internally, and obtain the rest of the raw materials we need primarily from domestic external suppliers. For certain of such raw materials, we depend on a small number of suppliers. In 2008, 2009 and 2010, our five-largest suppliers accounted for approximately 44.5%, 37.0% and 20.5%, respectively, of our total costs of sales. For the same periods, our largest supplier accounted for approximately 18.0%, 17.7% and 7.5%, respectively, of our total costs of sales. Our supply agreements with suppliers generally range from three months to one year. For certain agreements, particularly short-term agreements, the price and volume are fixed. Most of our supply agreements, however, provide that the price and volume are subject to the final purchase order and price confirmation sheet. An adverse change in our relationship with any major supplier, its financial condition and its ability to deliver raw materials, as well as other factors, such as timber shortage as a result of natural disasters, could interrupt supply. In addition, we also produce certain raw materials internally and our production facilities may experience disruption in their operations for various reasons, such as shortage of power and the occurrence of natural disasters. If any of these occurs and we are not able to find alternative sources at similar or more competitive prices, we may have to, among other actions, re-engineer our products or limit our production, which would have material and adverse effect on our business, financial condition and results of operations. We also purchase certain wood from overseas suppliers and rely on their undertaking for the legitimacy of their sources of wood in our supply agreements. We cannot assure you that all wood supplied by these suppliers are from legitimate sources solely based on such contractual undertaking. It could be found that we have acquired wood from inappropriate or illegitimate sources, which might then subject us to penalties and adversely affect our business and operation.

Higher raw materials prices may affect our financial performance.

The cost of certain raw materials used in the manufacturing of our branded products has risen in recent years in part due to strong market demand and in part due to greater government restrictions in response to forestry protection initiatives. According to Pöyry, the price of industrial round timber in China rose 3%-5% per annum during the Track Record Period. The prices of imported softwood log have increased considerably between 2003 and 2008, driven primarily by the continued significant growth in the demand of softwood log in China and the high ocean freight rate. Although the global financial crisis resulted in a price decline during the late 2008 and early 2009, the prices recovered in 2009 and continued to increase in 2010 with renewed demand. The prices of domestic softwood log in

China are found to be broadly in line with the imported log price trend. According to Pöyry, log prices are expected to increase by around 1%-2% per annum over the next four years. The increase in cost of principal raw materials may increase our or authorized manufacturers' overall operating costs. Although we and authorized manufacturers seek to pass on the increased costs to consumers, we and authorized manufacturers may not always be able to do so for reasons beyond our control. For example, we may not be able to increase the price of our products because our competitors may adopt a low pricing strategy or the increased price may cause consumers to choose alternative flooring products, such as tiles. If we or authorized manufacturers are not able to pass on the cost increases to consumers, our results of operations may be materially and adversely affected.

Our branded products may fail to perform as expected or contain defects, and these failures or defects, and any negative publicity or product liability claims which may result, could materially and adversely affect our business, financial condition and results of operations.

Our branded products are sold in various specifications and configurations, and must meet certain requirements imposed by the PRC government, as well as pass certain tests conducted by us or by the government. If we fail to, or fail to cause authorized manufacturers to, meet these requirements and conform to these specifications, or if any of our branded products fails to perform as expected or contains defects, we and authorized manufacturers could be subject to governmental fines and other administrative measures.

In addition, customers from time to time could claim that our branded products do not meet their requirements, and users could claim to be harmed by the use or misuse of our branded products. This could give rise to breach of contract, product warranty or recall claims, or claims for negligence, product liability, strict liability, personal injury or property damage. The wood flooring industry has in the past been subject to claims relating to excessive formaldehyde and other issues. Product liability insurance coverage may not be available or adequate in all circumstances.

Any governmental fines or other administrative measures, as well as claims from purchasers or users, whether successful or not, may result in negative publicity relating to our branded products, our company in general and authorized manufacturers, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

We may not be able to accurately anticipate or timely respond to changes in consumer tastes and preferences for wood flooring products.

The success and popularity of our branded wood flooring products depend, in part, upon our ability to identify consumer preferences and to design products that appeal to such preferences. Consumer preferences, however, change frequently. Among other trends on consumer preferences, Chinese consumers of wood flooring products are increasingly becoming more sophisticated and focusing on the products' performance in terms of safety, durability and environmental impact. We cannot assure you that we will be able to anticipate and timely respond to changes in consumer tastes and preferences. If we fail to anticipate, identify or respond quickly to changes in such preferences, our sales and market share could be adversely affected and we could lose our competitive advantage.

Our failure to adequately protect our intellectual property rights or any infringement claims against us brought by third parties may have a material and adverse effect on our business, financial condition and/or results of operations.

We rely on registered trademarks to protect our brands, as well as patents to protect our proprietary technology used to manufacture and produce a number of our branded products. In addition, we have developed a range of technical know-how relating to the design and production process of our products, which has been derived from the past experience of our key employees and management team as well as the results of our research and development efforts. There may be counterfeit and imitation versions of our products on the market, and we may have to initiate legal or administrative proceedings to protect our intellectual property rights. However, protections offered by the intellectual property laws in China and other jurisdictions where we have registered our trademarks and patents, as well as the enforcement of these protections, may not be effective. In addition, unlike trademarks and patents, our technical know-how cannot be protected under the PRC legal system by way of registration with competent authorities, and as a result, we have to rely on non-disclosure and confidentiality agreements with our employees, which is a less effective mean of protection. Any unauthorized or inappropriate use of our trademarks, copyrights, patents, know-how and other intellectual property could harm our market image and reputation and materially and adversely affect our financial condition and results of operations. In addition, some of our intellectual property rights may be invalid or be challenged as being invalid or unenforceable, and we may incur significant costs defending against such challenges, which may harm our business, financial condition and/or results of operations. Furthermore, third parties may claim that our procedures or processes have infringed upon their proprietary rights. Defending against infringement claims pursued by third parties, whether with or without merit, or asserting claims against third parties could be time consuming, divert management attention and resources, result in costly litigation or damages, undermine our brand value, reduce sales and/or require us to enter into royalty or licensing agreements that may not be on acceptable terms.

Our operations may be materially and adversely affected by environmental regulations.

We are subject to extensive and increasingly stringent environmental protection laws and regulations in China and Peru. The activities which are subject to environmental regulation primarily include flooring manufacturing activities, forestry activities and the emission or discharge of pollutants or wastes into the soil, water or atmosphere. In addition, the relevant environmental regulations also regulate the standards that our branded product must meet, in terms of the maximum content or emission of formaldehyde and other chemicals. At present, these laws and regulations:

- impose fines and penalties for environmental violations;
- require us to obtain certain licenses before we are permitted to carry out certain activities and/or occupy certain premises; and
- authorize the relevant government to suspend our license or take other actions to correct or stop suspected illegal operations causing environmental damage.

Currently, the PRC and Peru governments are moving towards more rigorous enforcement of environmental laws and regulations and the adoption of more stringent environmental standards. As a result, we may incur additional costs in order to comply with the more stringent rules. In addition, there is no assurance that our products will always comply with the applicable environmental regulations. If we fail to comply with current or future environmental laws and regulations, we may be required to pay penalties or take corrective actions and the resulting negative publicity may damage our reputation and brand image, any of which may have a material and adverse effect on our results of operations and/or financial condition.

Our operations rely on a continuous power supply and any shortages or interruptions could disrupt our operations and increase our expenses.

The manufacturing of our products relies on a continuous and uninterrupted supply of electrical power and water, as well as discharge facilities for water, waste and emissions. Any shortage, interruption or curtailment of discharge could significantly disrupt our operations and increase our expenses. Causes of such shortage, interruption or curtailment of discharge may include extreme weather conditions, fire, natural catastrophes, disruptions in raw material supply, equipment and system failures, labor force shortages, workforce actions or environmental issues. We do not have backup generators or alternate sources of power to support our production in the event of a blackout. In addition, our insurance coverage does not extend to any damages resulting from interruption in our power supply. Any interruption in our ability to continue operations at our facilities could damage our reputation, harm our ability to retain existing customers or obtain new customers, any of which could have a material and adverse effect on our business, financial condition and results of operations.

We are subject to the risks associated with our manufacturing activities.

We are subject to the risks associated with our manufacturing activities, which include risks related to the hazards involved in the operation of our manufacturing plants. These hazards include the release of hazardous substances, manual handling hazards, exposure to dust and hazards related to the malfunctioning of equipment and manufacturing machinery. These operating hazards may cause personal injury to our employees or property damage, which could result in the imposition of civil and/or criminal penalties on us. The occurrence of any of these events could have a material and adverse effect on the productivity and profitability of a particular manufacturing facility, our reputation and our business, financial condition and/or results of operations.

We are subject to certain risks associated with the transportation and warehousing of our branded products.

The delivery of finished products from our manufacturing facilities to our distributors could be suspended, if any unforeseen events which are beyond our control occur, such as poor handling and damage to our finished products, transportation bottlenecks, natural disasters or labor strikes. If our finished products are not delivered to our distributors on time, our market reputation and profitability could be materially and adversely affected. We may also face lawsuits arising from our failure to deliver in accordance with relevant agreements. In addition, we typically store our raw materials and finished products in our warehouses pending use in the manufacturing process or delivery. If due to fire or other accidents the raw materials and finished products are damaged, we may not be able to procure sufficient materials to replace the damaged goods and thereby may be unable to supply finished products to our distributors on time. The foregoing would adversely affect our reputation and results of operations.

Any inability to renew or secure new forest concessions upon their expiration or termination could affect the stability of the timber supply for our business.

As of December 31, 2010, we owned standing trees and related concession rights in 4,445 hectares and 46,347 hectares of forests in Yunnan Province, China and Loreto Province, Peru, respectively. We cannot assure you that we will be able to retain our forest concessions. Governments may unilaterally terminate or reduce the size of our concessions or change the conditions attached to our concessions in certain circumstances for reasons such as public security, environmental preservation or social policy. The relevant concession licenses or agreements may be terminated if we materially breach our obligations. In addition, regulatory changes in jurisdictions where we owned forest assets, including the changes in applicable environmental and tax regulations and policies with respect to the granting of forest concessions may adversely affect our ability to retain our forest concessions.

There can be no assurance that, in the event of any termination or reduction of our rights, particularly our concession licenses, we will receive any compensation to offset lost revenues we may have generated had we been allowed to maintain our operations on such lands, or to reimburse us for improvements made by us upon such land. If we are unable to retain or renew our forest concessions upon their expiration or termination or secure new such concessions, the stability of the timber supply for our business may be adversely affected and our business in turn may be materially and adversely affected.

Our planned commercial logging activities are subject to regulatory approvals, restrictions and uncertainties.

As of December 31, 2010 we owned standing trees and related concession rights in 4,445 hectares and 46,347 hectares of forests in Yunnan Province, China and Loreto Province, Peru, respectively. We need to obtain government approvals to start commercial logging activities in these forests. For our Peru forests, we obtained in February and March 2011 the government approval of our general forestry management plan and annual operational plan, respectively. For our Yunnan forests, we need to obtain a logging permit from the local county-level forestry administration authority. See "Business — Our Forests" and "Appendix VIII — Summary of Principal PRC and Peruvian Legal and Regulatory Provisions." As at the Latest Practicable Date, we have not yet obtained the logging permit for our Yunnan forests. Although we expect to obtain such approvals for our Yunnan forests and start commercial logging activities in our forests in Peru and Yunnan in the second half of 2011, we cannot assure you that this will be the case and we will be able to start commercial logging activities in time or at all. In addition, even if we obtain such approvals, the relevant permit or the approved plan may contain various restrictions on our logging activities, such as the maximum volume of timber we are permitted to harvest in a specified period and the reforestation requirements. Furthermore, we expect that our forests will produce timber in the amount of approximately 21,000 cubic meters and 51,000 cubic meters in 2011 and 2012, respectively. However, we cannot assure you that this will be the case due to various reasons, such as unfavorable weather conditions, natural disasters and our lacking of forest management experience. As part of our strategy, we plan to acquire more strategic upstream forest assets. Failure to obtain the government approvals to start commercial logging activities and the relevant restrictions and uncertainties may undermine the value of our existing and future forest assets as well as our business development.

Changes in fair value of our forest assets could result in significant fluctuations in our profit from operations.

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 valuation of fair value of our forest assets involves the exercise of professional judgment and employs certain bases and assumptions, which, by their nature, are subjective and uncertain. 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. See "Financial Information — Biological Assets." Changes in international timber log prices or the assumptions or methodologies underlying the valuation, including the discount rate, may affect the fair value of our forest assets significantly. In addition, there is no cash flow impact on our operation as fair value gain is only accounting in nature. The recognition of any such gain or loss is on the relevant balance sheet dates and does not generate any actual cash inflow or outflow. Moreover, the professional valuer will determine the fair value of our forest assets each year, which may result different valuation amount, therefore, the historical results of fair value of our forest assets may not be indicative of future performance of our forest assets. We cannot assure you that the fair value of our forest assets will not decrease in the future. Changes in the fair value of our forest assets could result in significant fluctuations in our profit from operations.

We may face increased costs for new forest acquisitions.

Our Yunnan and Peru forests were acquired at a consideration of approximately RMB41.5 million and RMB19.0 million, respectively. As part of our development strategy, we plan to acquire more forest assets, especially those that produce high-quality timber, in order to provide a stable source of high-quality timber for the manufacturing of our branded products. As the number of competitors in the private forestry sector increases due to the privatization of China's forestry sector, we expect greater competition for acquiring forests, which may drive up acquisition prices. In addition, as the private forestry sector develops, sellers may demand higher premiums for high-quality forests. Similarly, we may face higher costs in acquiring forests in other jurisdictions where we may have acquisition plans due to the foregoing reasons or as a result of the greater governmental control and restrictions due to government initiatives to protect forests. We cannot assure you we will be able to negotiate favorable prices for our new forest acquisitions. Higher acquisition costs and intensifying competition for new forests may hamper our forest acquisition plans and business.

We face risks associated with the overseas sale of wood flooring products as well as the overseas purchase of timber, and if we are not able to effectively manage these risks, our trading business will be materially and adversely affected.

Our trading business, consisting of flooring trading and timber trading, accounted for 14.9%, 10.5% and 20.5% of our total revenues in 2008, 2009 and 2010, respectively. 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 trademarks to customers in overseas markets, mostly flooring distributors in the U.S. For timber trading, we purchase timber from overseas wood dealers and sell the timber to various clients in China, including authorized manufacturers and other wood products manufacturers. The marketing and sale of wood flooring products to, and the purchase of timber from, overseas markets expose us to a number of risks, including:

- changes in general economic conditions of any specific overseas market, especially the U.S.;
- increased trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses;
- difficulty and increased costs relating to compliance with different and changing regulatory requirements and government policies of overseas markets, including obtaining and maintaining the necessary certificates and permits;
- fluctuations in foreign currency exchange rates;
- increased costs associated with maintaining the ability to understand the international markets and following their trends;
- difficulty with developing and maintaining an effective marketing and distributing presence in various countries; and
- higher costs in relation to providing customer service and support in these markets, as well as dealing with customer claims, refund, return requests and relevant disputes or legal or administrative proceedings.

We may not be able to develop and implement policies and strategies that will be effective in the relevant jurisdictions to deal with the foregoing risks, and as a result, our trading business, growth prospects, financial condition and results of operations may be materially and adversely affected.

We may not be able to obtain external financing in time or on terms acceptable to us for our capital expenditure and other corporate needs, which could limit our ability to grow our business.

Our ability to increase our revenues, net income and cash flows depends in part upon continued capital spending. We may also need further funding for debt service, working capital, capital expenditure, potential acquisitions and other corporate requirements. Our ability to obtain external financing in the future and the cost of such financing are subject to a variety of uncertainties, including our reputation, financial conditions, applicable regulatory approvals, interest rates and general global and domestic economic conditions. If, for any of these or other reasons, we are unable to obtain financing on favorable terms, or at all, our operations may be materially and adversely affected.

Our insurance coverage may not be sufficient to cover the risks related to our operations and losses.

We maintain different types of insurance policies, including property casualty insurance, transport accident insurance, vehicle insurance and product liability insurance. Our insurance policies may not be adequate to cover all of the risks relating to our business. For example, in accordance with customary practice in China, we do not carry any business interruption insurance or third-party liability insurance for losses or damages arising from accidents on our properties or relating to our operations other than those relating to our vehicles. In addition, as a result of market conditions, premiums and deductibles for our existing insurance policies may increase substantially and, in some instances, our existing insurance may become unavailable or available only for reduced amounts of coverage. Any losses or liabilities which are not covered by our current insurance policies may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not continue to enjoy certain favorable PRC governmental policies.

We currently enjoy certain favorable PRC governmental policies, any of which may be discontinued in the future. Some of the policies from which we currently benefit subject us to periodic eligibility review. For example, two of our operating subsidiaries, Guangdong Yingran and Kunshan Nature, currently enjoy a favorable income tax rate at 12.5%, which will be increased to the typical tax rate of 25% in 2012 and 2013, respectively. If we are unable to continue to benefit from some or all of the governmental policies under which we currently receive favorable treatment, our business, results of operations and financial condition may be adversely affected.

We may fail to develop and implement our growth strategy or effectively manage our growth, which would in turn have a material and adverse effect on our business and results of operations.

We have grown rapidly in recent years. Our rapid expansion will impose significant additional responsibilities on our management, including the need to identify, recruit, train and integrate additional employees, and oversee the expansion of our production facilities, distribution network and authorized manufacturers. In addition, rapid and significant growth may place a strain on our administrative and operational infrastructure, including our internal accounting and financial reporting processes and systems. As our operations expand, we expect that additional resources will be required to manage new relationships with additional exclusive distributors and authorized manufacturers and to supervise the performance of an increasing number of Retail Stores, as well as other third parties, including raw material suppliers. Our ability to manage our operations and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. If we are unable to develop and implement a successful growth strategy, we may be unable to effectively manage our growth, including the rapid expansion of the distribution network, and our long-term business prospects may be adversely affected. We may fail to execute our growth strategy due to a number of factors, including those beyond our control, such as our inability to obtain adequate funding or to recruit suitable personnel.

We may encounter difficulties when expanding into new markets and new product lines.

We plan to expand our geographic coverage in county-level cities and towns in China. In addition, we may selectively work with third-party product partners to add additional products to our branded product portfolio that are complementary to our core business, such as wood doors, wardrobes and cabinets. However, any of the factors listed below and other factors could prevent us from competing effectively in these new markets or product lines and thus negatively affect our expansion:

- unfamiliarity with these local markets or products;
- lack of operational experiences with respect to the new products;
- difficulty in locating targeting qualified local distributors or distributors for new products;
- difficulty in obtaining prime locations for retail stores;
- difficulty in locating qualified manufacturers for the new products; and
- market entry barriers such as strong local competitors that may have a proximity advantage and local connections.

We may encounter difficulties in expanding into the upstream forestry management and harvesting business, which may adversely affect our results of operations and financial condition.

We may encounter difficulties and face risks in connection with our expansion into the upstream forestry management and harvesting business in Yunnan and Peru. We entered the forestry management and harvesting business after selectively acquiring strategic upstream forest assets beginning in 2009. In preparation for the commencement of commercial logging activities, we have recruited forest engineers and plan to hire independent third-party contractors to take charge of the overall management. We also have to devote resources and management efforts to this new business. We cannot assure you that our expansion into the forestry management and harvesting business will be successful as we have limited experience in this industry and may not effectively supervise our forest engineers and third-party contractors. Likewise, we cannot assure you that we may be able to generate sufficient profit to justify the costs of expanding into this business. If such business in which we have invested does not progress as planned, we may not be successful in reducing our reliance on third-party sourced timber and our results of operations and financial condition may be adversely affected.

We and authorized manufacturers may experience a shortage of labor, an increase in labor costs and be exposed to labor disputes, which would have an adverse effect on our business and results of operations.

We and authorized manufacturers rely on labor resources for production. The labor costs as a percentage of our cost of sales were 4.2%, 4.5% and 4.1%, respectively, in 2008, 2009 and 2010. There have been certain developments in China's labor market, including shortage of labor in certain regions, increased labor cost and more stringent regulatory requirements on labor protection. There is no assurance that we and authorized manufacturers will not experience any shortage of labor, increased labor costs or labor disputes against us or we and authorized manufacturers will be able to comply with all relevant regulations or requirements. Any such negative incidents may cause us and authorized manufacturers to incur additional costs, result in production delays, damage reputation or disrupt operations.

We may not be able to derive the desired benefits from our product development efforts.

Our competitiveness is dependent in part on our ability to develop new products and more efficient production capabilities. We place significant emphasis on product development, in particular, to improve the quality of our branded products and expand our new product offerings, which we believe are crucial for our future growth and prospects. See "Business — Product Development." We cannot assure you that our future product development projects will be successful or be completed within the anticipated time frame or budget, or that our newly developed products will achieve commercial success or be accepted by the market. In addition, we cannot assure you that our existing or potential competitors will not be able to develop products which are similar or superior to our branded products. If our product development efforts are not as effective as we expect, our competitiveness, financial results and growth prospects may be materially and adversely affected.

We may be required to seek alternative premises for some of our warehouses, production facilities, offices or staff canteen due to our or our landlords' lack of relevant title certificates.

As of the Latest Practicable Date, we leased 30 properties with an aggregate leasable area of approximately 41,310 sq.m in China, for use as production facilities, warehouses, offices or staff quarters. Among these properties, 11 properties with an aggregate leasable area of approximately 22,859 sq.m. were leased from lessors who were not able to provide the relevant title certificates or documents evidencing the consent of properties owners for leasing the properties. These 11 properties are primarily used as warehouses, production facilities and offices of Zhongshan Nature, Guangdong Yingran and Kunshan Nature. Among these 11 properties, there are four properties representing a total leasable area of approximately 15,400 sq.m. with respect to which our PRC legal advisors, Haiwen & Partners, have advised that the relevant lessors are not entitled to lease the relevant properties, because the underlying land of these properties are collectively-owned or state-owned allocated land which is not permitted to be used for non-agricultural purposes or leased without government approvals under the PRC law. The lease agreements in respect of these four properties are therefore, as advised by Haiwen & Partners, not valid and our leasehold interests under these agreements are not protected by PRC laws and regulations. For the remaining seven properties representing leasable area of approximately 7,459 sq.m., Haiwen & Partners have advised that because the lessors are not able to provide the relevant title documents, there exists uncertainties as to whether the relevant lease agreements are valid and our leasehold interests under such agreements are protected by PRC laws and regulations. See "Business — Properties — Leased properties." We have not obtained building ownership certificates for 11 buildings with a total gross floor area of 2,020 sq.m. These 11 buildings are primarily used as offices or staff canteen of Zhangjiagang Nature. Our PRC legal advisors, Haiwen & Partners, have advised that, with respect to the title defect of these 11 buildings, the relevant authority may order us to rectify the title defect within a prescribed period, demolish the buildings and/or impose a fine of up to 10% of the construction cost of these buildings. See "Business — Properties — Owned Properties". If we are forced to relocate our operations in the affected properties, our operations may be interrupted and we may incur additional costs as a result of such relocation.

Our information technology systems are important to our operations. A system failure or breakdown may cause interruptions of our business and operation.

Our information technology infrastructure is important for us to conduct our operations. We currently use a self-developed management and financial system, and we plan to upgrade the system by replacing it with a third-party enterprise resource planning system to be purchased from professional developers. Any malfunction or interruption in a particular part of our information technology system for an extended period of time may result in a breakdown throughout our network. Furthermore, a future serious dispute with our information technology service provider or termination of a service contract with such provider may adversely affect our ability to upgrade our information technology infrastructure in a timely and cost-effective manner. If any of these events occur, our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on the continuing efforts of our senior management team and other key personnel and on our ability to successfully attract, train and retain additional key personnel.

Our future success depends heavily upon the continuing services of the members of our senior management team and other key personnel. In particular, our chairman, Mr. Se Hok Pan, who has over 15 years' experience in China's wood flooring industry, has been and continues to be central to our development. If Mr. Se or any other member of our management team or key personnel is unable or unwilling to continue in his or her present position and we are not able to replace him or her with a suitable candidate, our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. In addition, if any member of our senior management team or any of our other key personnel joins a competitor or forms a competing company, we may lose customers, distributors, know-how and key professionals and staff members. We are not insured against the detrimental effects to our business resulting from the loss or dismissal of key personnel. In addition, our ability to train and integrate new personnel into our operations may not meet the growing demands of our business. The loss of any of our key personnel or our inability to retain existing, or attract and retail new, qualified personnel, including senior executives, could therefore have a material and adverse effect on our business and growth prospects.

We will continue to be controlled by our Controlling Shareholders, whose interests may differ from those of our other Shareholders.

Immediately following ●, our Controlling Shareholders will directly and indirectly own approximately ●% of our Shares, or approximately ●% if ● is fully exercised. Our Controlling Shareholders, through their voting power at shareholders' meetings and their delegates on our Board, have a significant influence over our management and corporate policies, including our development strategies, capital expenditure and distribution plans. In addition, our Controlling Shareholders may cause us to implement corporate transactions that might not be in, or may conflict with, our other shareholders' best interests. For example, our Controlling Shareholders may, subject to applicable laws and regulations, may cause our Board to act or cause us to amend our Articles of Association in a manner that may not be in the best interests of our other shareholders. If our Controlling Shareholders decide to exercise their voting powers in ways that are not in the best interests of our other shareholders, the value of our other shareholders' investments may be diminished.

Furthermore, our Controlling Shareholders may decide to sell a substantial number of their Shares, thereby negatively affecting our ability to raise equity capital in the future. The Shares held by our Controlling Shareholders are subject to certain transfer restrictions for a period of up to 12 months after ●, as well as transfer restrictions under the Shareholders' Agreement, details of which are set out in "History and Development — Investment by MS Flooring, IFC and Headland HAV3 — MS Flooring and IFC's Investment in our Company — Certain Transfer Restrictions." While we are not aware of any intention on the part of our Controlling Shareholders to dispose of substantial numbers of their Shares upon the expiration of those restrictions, we cannot assure you that they will continue to hold any or all of its Shares. In such an event, the value of our Shares to our other shareholders may be significantly reduced.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Changes in the market demand for wood flooring products could materially and adversely affect our business, financial condition and results of operations.

Our business, financial condition and results of operation depend on the market demand for wood flooring products. Market demand for wood flooring products is subject to changes due to a number of factors, including:

- changes in domestic and international general economic conditions, such as changes in consumer confidence and disposal income, process of urbanization, corporate and government spending, interest rate levels, availability of credit, inflation and unemployment;
- changes in housing demand and home renovation and decoration activities;
- regulatory changes, including changes in government support, subsidy and policies;
- developments in real estate market;
- population growth and changing demographics and preferences; and
- seasonal weather cycles (such as dry or hot summers, wet or cold winters).

For example, the PRC government has implemented a number of policies aimed at improving the living conditions of low-income urban and rural families. See "Industry Overview — Key Drivers of Growth for China's Wood Flooring Market — PRC Government Support and Initiatives in Housing." We expect to benefit from these policies. If there is any change in these policies, there may be a slowdown in the growth of the relevant wood flooring markets and demand for wood flooring products.

A decrease in the market demand for wood flooring products could have a material and adverse effect on our business, financial condition and results of operations.

Our results of operations may vary throughout the year as a result of seasonal demand for our products.

Demand for our wood flooring products in China is seasonal due to the fluctuations in the level of construction activity primarily caused by weather cycles (such as dry or hot summers, wet or cold winters) and the presence of holidays, as well as seasonal changes in consumer spending behavior. Generally speaking, 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, largely because property developers introduce many new properties to the market at this time. There is generally a slowdown in real estate projects and home renovation activities during the winter and the Spring Festival holiday period. As such, we usually experience a reduction in sales during the first quarter of the calendar year.

Our industry experiences intense competition.

The wood flooring industry in China is intensely competitive. There is an increasing number of competitors in the industry. In addition, the existing players in the industry are seeking to become more competitive through various means, including mergers and acquisitions and the introduction of strategic domestic or foreign investors. Our major competitors currently include large international, national and regional companies. These competitors may have better track records, greater financial and marketing resources and greater economies of scale than we do.

Intense competition among wood flooring manufacturers in China for raw materials and skilled management and labor resources has in the past and may in the future result in an increase in costs for raw materials and labor. In addition, intense competition for market share could result in price reductions by our competitors, which may in turn put downward pressure on the selling prices of our products. If we cannot respond to changes in market conditions rapidly or respond as swiftly or effectively as our competitors, or if we fail to deal with the competition effectively, our business, results of operations and financial condition could be materially and adversely affected.

RISKS RELATING TO DOING BUSINESS IN CHINA

China's economic, political and legal conditions, as well as governmental policies, could affect our business, financial condition and results of operations.

Most of our businesses, assets and operations are located in China. Accordingly, our financial condition, results of operations and business prospects are, to a significant degree, subject to the economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

China's economy was a planned economy, and a substantial portion of productive assets in China are still owned by the PRC government. The government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, we may not benefit from certain of such measures.

The PRC government has the power to implement macroeconomic control measures affecting China's economy. In particular, the government has implemented various measures in an effort to increase or control the growth rate and adjust the structure of certain industries. For example, in response to a decreased growth rate in part as a result of the global financial crisis and economic slowdown, from September 2008 to mid 2010, the PRC government implemented a series of macroeconomic measures and a moderately loose monetary policy, which included announcing an economic stimulus package in the aggregate amount of RMB4 trillion (approximately US$586 billion) and reducing benchmark interest rates.

Certain of the PRC government's macroeconomic measures may materially and adversely affect our financial condition, results of operations and asset quality. For example, the PRC government's measures aimed at tempering the real estate market may cause a slowdown in the number of real estate development projects generally and demand for new real estate projects and in turn the market demand for wood flooring products. In addition, China has recently implemented a series of measures to curtail the rising inflation. If these measure are not effective, the inflation may result in reduced purchase power and disposable income of China's consumers, which may in turn affect the market demand for our products, and as a result, our business, financial condition and results of operations may be materially and adversely affected.

China has been one of the world's fastest-growing economies in terms of GDP growth, in recent years. However, China may not be able to sustain such growth. During the recent global financial crisis and economic slowdown, the growth of China's GDP slowed down. If China's economy experiences a decrease in growth rate or a significant downturn, the unfavorable business environment and economic conditions for our customers could materially and adversely affect our financial condition, results of operations and business prospects.

Uncertainties presented by the Chinese legal system could limit the legal protections available to us, which may have a material and adverse effect on our business and results of operations.

Our operations in China are governed by the laws and regulations of the PRC government. Our PRC subsidiaries are foreign-invested enterprises and subject to laws and regulations applicable to foreign investment in China. China has a civil law legal system based on written statutes. Unlike the common law system, previous court decisions in China may be cited for reference but have limited precedential value. Although the overall effect of legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investments in China, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. Such uncertainties may limit the legal protections available to us.

In addition, the PRC legal system is based in part on government policies and certain internal rules, some of which are not published on a timely basis or at all and which may have a retroactive effect. As a result, we may not be aware of our violation of these policies and internal rules until sometime after the violation. Also, any administrative or court proceedings may be protracted, resulting in substantial costs and diversion of resources and management attention if we seek to enforce our legal rights through administrative or court proceedings. Moreover, compared to more developed legal systems, the PRC administrative and court authorities have significantly wider discretion in interpreting and implementing statutory and contractual provisions. As a result, it may be more difficult to evaluate the outcomes of administrative and judicial proceedings as well as the level of legal protections we are entitled to. These uncertainties may impede our ability to enforce our contracts, which could in turn materially and adversely affect our business and operations.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Substantially all of our businesses, assets and operations are located in China. In addition, the assets of our directors and executive officers are partially located in China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon us or such directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, China has not entered into a treaty for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. As a result, recognition and enforcement in China or Hong Kong of a court judgment obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

We rely partially on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have. Any limitations on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business.

As a holding company, we rely partially on dividends from our subsidiaries in China for our cash requirements, including service of any debt we may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. Furthermore, in the future, if our subsidiaries in China incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. The inability of our PRC subsidiaries to distribute dividends or other payments to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business.

Government control over currency conversion may limit our ability to issue dividends to our shareholders in foreign currencies, and may, therefore, adversely affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under our current corporate structure, our Cayman Islands holding company may rely on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or the SAFE, upon satisfaction with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from the SAFE by complying with certain procedural requirements. But approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to holders of our Shares.

Fluctuations in the value of the Renminbi may have a material and adverse effect on your investment.

A substantial portion of the revenues and costs of our PRC operating subsidiaries are denominated in Renminbi. Fluctuations in exchange rates, primarily those involving the Hong Kong dollar and U.S. dollar, may affect the relative purchasing power. Fluctuations in the exchange rate will also affect the relative value of earnings from and the value of any foreign currency-denominated investments we make in the future.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's and international political and economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2.1% against the U.S. dollar. From July 21, 2005 to December 31, 2009, the value of the Renminbi appreciated by approximately 21.2% against the U.S. dollar. In June 2010, China announced that it will further promote the reform of its exchange rate regime. From July 1, 2010 to April 30, 2011, the value of the Renminbi appreciated further by approximately 4.5% against the U.S. dollar.

Any appreciation of the Renminbi against the U.S. dollar or any other foreign currencies may result in a decrease in the value of our foreign currency-denominated assets. It may also adversely affect our flooring trading business as the appreciation of the Renminbi may drive up the price in foreign currencies at which we sell flooring products to overseas clients. Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, our Shares in foreign currency terms. Also, as a portion of our raw material purchases and our timber purchases in conducting timber trading business are denominated in foreign currencies, devaluation of the Renminbi against relevant foreign currencies may increase our relevant cost of sales and in turn negatively affect our results of operations. We do not use foreign currency forward exchange contracts to hedge the currency exposure arising from individual transactions. See "Financial Information — Market Risks — Foreign Currency Risks." Accordingly, fluctuations in the value of the Renminbi against relevant foreign currencies may adversely affect the results of operations of our trading business.

The M&A Rule may make it more difficult for us to make future acquisitions or dispositions of our business operations or assets in China.

In 2006, six PRC regulatory agencies jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), or the M&A Rule, which became effective on September 8, 2006 and was amended on June 22, 2009. See "Appendix VIII — Summary of Principal PRC and Peruvian Legal and Regulatory Provisions." The M&A Rule, among other things, provides for additional procedures and requirements that may cause merger and acquisition activities to be conducted by us in China, as a foreign investor under the PRC law, more complex and time consuming. If the relevant PRC government authorities decide that such activities are subject to the M&A Rule, we will be required to obtain approval for such transactions from the Ministry of Commerce, or its local agencies (collectively, the MOC Authority). If we do not seek the necessary approval, we could be subject to administrative fines or other penalties imposed by the relevant PRC authorities. However, because there are no specific provisions as to the fines or penalties for such violations under current PRC laws and regulations, it is uncertain what penalties we may face. In the future, we may grow our business in part by acquiring companies or assets in China. Complying with the requirements of the M&A Rule to complete such transactions could be time consuming and any approval procedures, including obtaining approval from the MOC Authority, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiaries to liabilities or penalties, limit our ability to contribute capital to our PRC subsidiaries, limit our PRC subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

The Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents' Financing and Roundtrip Investment through Offshore Special Purpose Vehicles

(《關於境內居民通過境外特殊目的公司融資及返程投資外滙管理有關問題的通知》), or Circular 75, which was issued by the SAFE and became effective on November 1, 2005, requires PRC residents, including both legal persons and natural persons, to register with the competent local SAFE branch before establishing or controlling any offshore company, referred to as an "offshore special purpose company (SPV)," for the purposes of acquiring any assets of or equity interest in Chinese companies and raising funds from overseas. In addition, any such PRC resident is required to update the previously filed registration to reflect any material alteration in the capital of such SPV involving no roundtrip investment, such as the merger of, and the long-term equity or debt investment by, the SPV. If any PRC shareholder of the SPV fails to make or update the required registration, the PRC subsidiaries of that SPV may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, and similarly, the SPV may also be prohibited from contributing additional capital into its PRC subsidiaries. Furthermore, failure to comply with the foregoing requirements could result in liability under the PRC laws for evasion of applicable foreign exchange restrictions.

Our PRC legal advisors, Haiwen & Partners, have advised us that Circular 75 currently does not apply to us because none of our existing shareholders and beneficial owners of our shares is a PRC resident. However, we cannot assure you that any PRC resident who becomes our shareholder or the beneficial owner of our shares in the future will be able to comply with Circular 75 in a timely manner or at all. A failure by any of our shareholders or beneficial owners of our shares who are PRC residents to comply with these regulations and rules in the future could subject us to fines or legal sanctions, including restrictions on our PRC subsidiaries' ability to pay dividends or make distributions to, or obtain foreign currency-dominated loans from, us, and our ability to increase our investment in China. As a result, our business and results of operations and our ability to distribute profits to you could be materially and adversely affected.

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Under the New EIT Law, we may be considered a PRC "resident enterprise." As a result, we may be subject to 25% PRC income tax on our worldwide income, and holders of our Shares may be subject to PRC tax on dividends paid by us and gains realized on their transfer of Shares.

Under the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), or the New EIT Law, and its implementing rules, both effective from January 1, 2008, any enterprise established outside of the PRC with "*de facto* management bodies" within the PRC is considered a "resident enterprise" and will be subject to enterprise income tax at the rate of 25% on its worldwide income. The implementing rules define the term "*de facto* management bodies" as "establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise." The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), or Circular 82, issued by the State Administration of Taxation (國家稅務總局) on April 22, 2009 provides certain specific criteria, all of which must be met, for determining whether the "*de facto* management body" of a Chinese-controlled offshore incorporated enterprise is located in the PRC. The criteria include whether: (i) the enterprise's day-to-day operational management is primarily exercised in China, (ii) decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organizations or personnel in China, (iii) the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes are located or maintained in China and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China. Although Circular 82 applies only to offshore enterprises controlled by the PRC enterprises, not companies controlled by foreign shareholders and PRC individuals, such as our Company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation's general position on how the "*de facto* management body" test should be applied in determining the tax resident status of offshore enterprises. We have not been notified by the relevant tax authorities that we are treated as a PRC resident enterprise. However, since substantially all of our management is currently based in China and is expected to remain in China in the future, we cannot assure you that we will not be considered a "resident enterprise" under the New EIT Law and, therefore, be subject to the enterprise income tax at 25% on our worldwide income, which could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Under applicable PRC tax laws, dividends paid by a Chinese company to non-PRC resident individual shareholders and gains realized by such individual shareholders upon sale or other disposition of their shares in such Chinese company are subject to PRC individual income tax at a rate of 20%. Under applicable PRC tax laws, such dividends paid to, and gains realized by, non-PRC resident enterprise shareholders are subject to PRC enterprise income tax at a rate of 10%. In the case of dividends, the tax is withheld at source. If we were considered a "resident enterprise" in the PRC, holders of Shares may be subject to the above income tax and we may be required to withhold the tax from any dividends paid to our non-PRC shareholders. If we were not considered a "resident enterprise" in the PRC, dividends paid by our PRC subsidiaries to us and gains realized by us upon sale or other disposition of shares in our PRC subsidiaries may be subject to the 10% enterprise income tax. Imposition of any of these taxes on us or on you may materially and adversely affect the value of your investment in our Shares.

Furthermore, in connection with the New EIT Law, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer (《國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知》), or Circular 698, in December 2009. Pursuant to Circular 698, except for the purchase and sale of equity through a public securities market, where a foreign corporate investor indirectly transfers the equity of a PRC resident enterprise by disposing of the equity of an overseas holding company ("Indirect Transfer") located in a tax jurisdiction that (i) has an effective tax rate of less than 12.5%, or (ii) does not tax its residents on their foreign income, the foreign corporate investor shall report the Indirect Transfer to the competent PRC tax authority within 30 days from the date when the equity transfer agreement was made. If the PRC tax authority, upon examining the nature of the Indirect Transfer, deems that the Indirect Transfer has no reasonable commercial purpose other than to avoid PRC tax, the PRC tax authority may disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the Indirect Transfer. As a result, foreign investors may be required to report Indirect Transfers of our PRC subsidiaries stock when they sell our shares, and gains derived from such Indirect Transfer by the foreign investor may be subject to the PRC enterprise income tax.

Dividends to be paid by our PRC subsidiaries to our Hong Kong subsidiaries may not qualify to enjoy the preferential withholding tax treatment under the special arrangement between Hong Kong and China due to significant uncertainties under the New EIT Law and related rules.

Under the New EIT Law, starting from 2008, dividends paid by each of our PRC foreign-invested enterprises to its immediate parent company outside the PRC will be subject to a 10% withholding tax. Pursuant to a special tax arrangement between Hong Kong and China, such rate may be lowered to 5% if the PRC enterprise is at least 25% held by a Hong Kong enterprise and relevant approvals from competent local PRC tax authorities are obtained. According to a series of rules issued by the State Administration of Taxation in 2009, a taxpayer must be the beneficial owner of the relevant subsidiaries in order to enjoy the treaty benefits and "beneficial owners" refers to individuals, enterprises or other organizations which are normally engaged in substantive operations. These rules also set forth certain adverse factors on the recognition of a "beneficial owner." Specifically, it expressly excludes a "conduit company," or any company established for the purposes of avoiding or reducing tax obligations or transferring or accumulating profits and not engaged in actual operations such as manufacturing, sales or management, from being a "beneficial owner." As a result, for each of our PRC subsidiaries that is currently wholly owned by a Hong Kong holding company, we may not be able to enjoy the preferential withholding tax treatment under the tax treaty with respect to dividends to be paid by that PRC subsidiary to its Hong Kong holding company that could not if the latter is not treated as a beneficial owner.

Any future occurrence of natural disasters or outbreaks of contagious diseases in China may have a material and adverse effect on our business, financial condition and results of operations.

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, or H1N1 flu, may materially and adversely affect our business and results of operations. In 2009, there were reports of occurrences of H1N1 flu in certain regions of the world, including the PRC where we operate substantially all of our business. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may in turn adversely affect our business. Moreover, China has experienced natural disasters like earthquakes, floods, landslides and droughts in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan Province and Qinghai Province, respectively, resulting in the death of tens of thousands of people. In 2010, severe droughts occurred in southwestern China, resulting in significant economic losses in these areas. Any future occurrence of severe natural disasters in China may adversely affect its economy, our forest assets and supply of raw materials for the production of wood flooring products, any or all of which could adversely affect our business. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 flu or other epidemics, will not seriously interrupt our operations or those of our customers, which may have a material and adverse effect on our results of operations.

We cannot guarantee the accuracy of facts and statistics derived from PRC official government publications with respect to China, China's economy and its wood flooring industry contained in this document.

Certain facts and statistics relating to China, China's economy and its wood flooring industry set forth in the section headed "Industry Overview" to this document are derived from various PRC official government publications. However, we cannot guarantee the quality or reliability of such source materials. We believe that the sources of the information are appropriate sources for such information and the Directors have taken reasonable care in the extraction and reproduction of the information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, such information has not been prepared or independently verified by us, ● and, therefore, we make no representation as to the accuracy or completeness of such facts and statistics, which are derived from PRC official government publications and may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein that are from PRC official government publications may be inaccurate, incomplete or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that the facts and statistics derived from the PRC official government publications contained in this document are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In relation to the ●, we have sought the following waivers from strict compliance with the relevant provisions of the ● and exemption from the relevant provisions of the ●:

Waiver in Respect of the Previous Share Option Scheme

According to ●, this document is required to include details of the number, description and amount of Shares which a person has, or is entitled to be given, an option to subscribe for, together with certain particulars of each option, namely the period during which it is exercisable, the price to be paid for Shares subscribed for under it, the consideration (if any) given or to be given for it or for the right to it, and the names and addresses of the persons to whom it or the right to it was given. Under ●, where options have been granted to employees under a share scheme, it is not necessary to disclose the names and addresses of the grantees of the options.

● requires that full details of all outstanding options and their potential dilution effect on the shareholdings upon ● as well as the impact on the earnings per Share arising from the exercise of such outstanding options be disclosed in this document.

As at the date of this document, the outstanding options granted under the Previous Share Option Scheme involve 3,231,543 Shares (pre-Capitalization Issue and the ●) or ● Shares (post-Capitalization Issue and the ●) and such options are held by 100 grantees. Except for those grantees who are connected persons of our Company and members of the senior management of our Group as disclosed in the paragraph headed "Appendix IX — Statutory and General Information — Share Option Schemes — Previous Share Option Scheme" in this document, no options have been granted to any connected person of our Company or member of senior management of our Group.

We have applied for an exemption from strict compliance with the disclosure requirements under ● in connection with the information of the options granted under the Previous Share Option Scheme on the ground that full compliance with such disclosure requirements in setting out the names and addresses of, and the number of Shares represented by options granted under the Previous Share Option Scheme to, the employees of our Group and who are neither directors, former directors, members of senior management of our Group, connected persons of our Company nor employees of our Group with options to subscribe for ● Shares (post-Capitalization Issue and the ●) each or more, would be unduly burdensome for our Company and would be of little significance or relevance to potential ● for the following reasons:

(a) the options granted under the Previous Share Option Scheme are considered as part of each grantee's remuneration package, and therefore information on options granted to each individual grantee is highly sensitive and confidential among the grantees.

Disclosing such highly sensitive and confidential information in this document would prejudice the interests of our Company and therefore unduly burdensome on our Company;

(b) the grant and exercise in full of the options granted under the Previous Share Option Scheme will not cause any material adverse impact in the financial position of our Company and in any event the total number of Shares to be issued upon exercise of the options granted under the Previous Share Option Scheme and the potential dilution effect will be set out in this document;

(c) non-compliance with the disclosure requirements does not prevent our Company from providing an informed assessment of our Company's activities, assets and liabilities, financial position, management and prospects to its potential ●;

(d) the important information, that is, the aggregate number of options outstanding, exercise price, vesting period, exercise period and the potential dilution effect on the shareholdings of our Company upon ● and the impact on the earnings per Share upon full exercise of the options granted under the Previous Share Option Scheme, is disclosed in this document and such information, together with other information contained in this document regarding the Previous Share Option Scheme, provides potential ● with sufficient information to make a relevant assessment of our Company in their decision-making process; and

(e) setting out the names, addresses and numbers of Shares represented by options for all 100 grantees on an individual basis would increase the number of pages in the document by about 30 pages (English and Chinese versions included) and therefore would be costly and unduly burdensome on our Company in light of the increase in cost for document printing.

● has agreed to grant a waiver from strict compliance with the relevant disclosure requirements in connection with the information of the options granted under the Previous Share Option Scheme on the following conditions:

(a) the grant of a certificate of exemption from strict compliance with the relevant Hong Kong Companies Ordinance requirements by the ●;

(b) disclosure in this document, on an individual basis, the full details of all options granted by our Company under the Previous Share Option Scheme to director, former director, senior management of our Company and our subsidiaries, and those grantees who have been granted options to subscribe for ● Shares (post-Capitalization Issue and the ●) each or more, such details to include all the particulars required under ●;

(c) in respect of the options granted by our Company under the Previous Share Option Scheme other than those referred to in (b) above, the following details are disclosed in this document:

    (i) the aggregate number of grantees and the aggregate number of Shares underlying such options;

(ii) the consideration paid for such options;

(iii) the exercise period of such options; and

(iv) the exercise price of such options;

(d) an aggregate number of Shares subject to the options granted by our Company under the Previous Share Option Scheme and the percentage to our Company's total issued share capital represented by them;

(e) the potential dilution effect on the shareholdings of our Company upon ● and the impact on the earnings per Share upon full exercise of the options granted under the Previous Share Option Scheme; and

(f) a full list of all the grantees who have been granted options to subscribe for Shares under the Previous Share Option Scheme, containing all the details as required under ●, will be made available for inspection by the public as one of the documents available for inspection in accordance with ● in this document.

● has agreed to grant an exemption (pursuant to ●) from strict compliance with the disclosure requirements under ● on the following conditions:

(aa) full details of the options granted by our Company under the Previous Share Option Scheme to director, former director or members of the senior management of our Company or its subsidiaries, connected persons of our Company, and those grantees who have been granted options to subscribe for ● Shares (post-Capitalization Issue and the ●) each or more, including all requirements required under ●, will be disclosed in the document;

(bb) in respect of the options granted by our Company under the Previous Share Option Scheme other than those referred to in sub-paragraph (aa) above, the following details be disclosed in this document:

(i) the aggregate number of grantees and the number of Shares subject to the options;

(ii) the consideration paid for the grant of the options; and

(iii) the exercise period and the exercise price for the options; and

(cc) a full list of all the grantees (including the persons referred to in sub-paragraph (aa) above) who have been granted options to subscribe for Shares under the Previous Share Option Scheme, containing all the details as required under ● be made available for public inspection in accordance with ● in this document.

For further details of the Previous Share Option Scheme, please refer to the section headed "Appendix IX — Statutory and General Information — Share Option Schemes — Previous Share Option Scheme" in this document.

Waiver in Respect of Management Presence in Hong Kong

According to ●, a ● must have a sufficient management presence in Hong Kong. This normally means that at least two of the executive directors must be ordinarily resident in Hong Kong.

The headquarters of our Group is located in Shunde, PRC. Our manufacturing facilities are located in the PRC and our branded flooring products are sold principally in the PRC. All of the executive Directors currently reside in Macau. Apart from Mr. Teoh Chun Ming, our Chief Financial Officer and Company Secretary, who is a Hong Kong resident, the other members of the senior management of our Group reside in the PRC. The management functions of our Group are principally carried out in Macau but the executive Directors also travel regularly to the PRC to attend to our manufacturing and other business operations in the PRC. Mr. Teoh Chun Ming also travels to the PRC from time to time to attend to our operations.

We do not and, for the foreseeable future, will not have a significant management presence in Hong Kong for the purpose of satisfying the requirements under ●. Therefore, we have applied for, and ● has agreed to grant us, a waiver from strict compliance with ● subject to the condition that the following measures and arrangements be made for maintaining regular and effective communication between the ● and us:

(a) we appoint two authorized representatives pursuant to ● who will act as the principal communication channel between ● and our Company. The two authorized representatives are Mr. Se Hok Pan, an executive Director who is a resident in Macau, and Mr. Teoh Chun Ming, our Chief Financial Officer and Company Secretary who is a Hong Kong resident. Both authorized representatives will be available to meet with ● in Hong Kong within a reasonable period of time upon request and will be readily contactable by ● by phone, facsimile and/or e-mail. Each of the authorized representatives are authorized to communicate on behalf of our Company with ●. We shall inform ● promptly in respect of any change in our authorized representatives;

(b) in compliance with ●, we shall retain a ● who will act as an additional channel of communication between ● and our Company for the period commencing from ● and ending on the date that we publish our first full financial year results after ●;

(c) each of the authorized representatives has access to all Directors (including the non-executive Directors and the independent non-executive Directors) promptly at all times as and when ● wishes to contact the Directors on any matters. We will implement a policy whereby (i) each Director will provide his or her mobile phone number, office phone number, residential phone number, e-mail address and facsimile number to the authorized representatives; (ii) each Director will provide valid phone numbers or means of communication to the authorized representatives when he or she is travelling; and (iii) each Director will provide his or her mobile phone number, office phone number, residential phone number, office phone number, e-mail address and facsimile number to ●; and

(d) save for Mr. She Jian Bin and Mr. Zhang Sen Lin, all Directors are holders of Hong Kong identity cards and Mr. She Jian Bin and Mr. Zhang Sen Lin have confirmed that they possess valid travel documents to visit Hong Kong and can meet with ● within a reasonable period of time, when required and any meetings between ● and our Directors may be arranged through our authorized representatives within a reasonable time frame.

Waiver in Respect of Dealings in Shares Prior to ●

Under ●, from ● until ●, there must be no dealing in the securities by any connected person of our Company. Under the terms of the Shareholders' Agreement, MS Flooring and IFC are required to transfer to Freewings a total of 3,298,212 Shares and 1,319,285 Shares, respectively, after the issue of our latest audited consolidated financial statements on May 16, 2011. For further details of the investment by MS Flooring and IFC in our Company, please refer to the section headed "History and Development" in this document.

MS Flooring, IFC and Freewings intend to complete the transfer of the above Shares after the date of this document, but prior to ●. Such transfer would not be in compliance with ●. Therefore, we have applied to ● for, and ● has agreed to grant us, a waiver from strict compliance with ● in order to permit the transfer of Shares from MS Flooring and IFC to Freewings to take place after the date of this document and prior to ●.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Se Hok Pan (佘學彬) *(Chairman)*	Av Do Infante D. Henrique No. 11 Edf. Kuan Fat Garden 19-Andar-A Macau	Chinese (Macau)
Ms. Un Son I (袁順意)	Av Do Infante D. Henrique No. 11 Edf. Kuan Fat Garden 19-Andar-A Macau	Chinese (Macau)
Mr. She Jian Bin (佘建彬)	No. 269 Avenida Do Doutor Mario Soares BL. 2 Kuan Fat Garden 14/F Macau	Chinese (Macau)
Mr. Chow Chi Keung Savio (周志强)	No. 11 Ave. Infante D. Henrique Ed. Kuan Fat Garden BL. 1 15-And-C Macau	Chinese (Macau)
Non-executive Directors		
Mr. Homer Sun (孫弘)	18 Shouson Hill Road Hong Kong	American
Mr. Eddy Huang (黃翊)	Flat 10A 17 Conduit Road Cliffview Mansion Hong Kong	American
Independent Non-executive Directors		
Professor Li Kwok Cheung, Arthur (李國章)	Flat 34C, 34/F, The Albany 1 Albany Road Mid-Levels Hong Kong	Chinese (Hong Kong)
Mr. Zhang Sen Lin (張森林)	Flat 905, 9/F Block 1, Shenggu Garden Chaoyang District Beijing PRC	Chinese
Mr. Chan Siu Wing, Raymond (陳兆榮)	Flat 1511, 15/F Block B, Tai Hang Terrace 5 Chun Fai Road Hong Kong	Chinese (Hong Kong)
Mr. Ho King Fung, Eric (何敬豐)	26A Roc Ye Court 11 Robinson Road Mid Levels Hong Kong	Chinese (Hong Kong)

DIRECTORS AND PARTIES INVOLVED

PARTIES INVOLVED

Auditors and Reporting Accountants	KPMG Certified Public Accountants 8/F, Prince's Building 10 Chater Road Central, Hong Kong
Property Valuer	BMI Appraisals Limited 33/F, Shui On Centre 6-8 Harbour Road Wanchai, Hong Kong
Forestry Consultant	Pöyry (Beijing) Consulting Co. Ltd., Shanghai Branch 2208-2210, Cloud Nine Plaza No. 1118, West Yan'an Road Shanghai, PRC

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Head Office in China	8 Longpan West Road New District Daliang, Shunde Foshan City Guangdong Province PRC
Place of business in Hong Kong registered under Part XI of the Hong Kong Companies Ordinance	Unit 3401, 34/F West Tower, Shun Tak Centre Nos. 168-200 Connaught Road Central Hong Kong
Company's website	www.china-flooring.com.hk *(this website address and its contents do not form part of this document)*
Company Secretary	Mr. Teoh Chun Ming, *FCPA, ACA, FCCA*
Authorized Representatives	Mr. Se Hok Pan Av Do Infante D. Henrique No. 11 Edf. Kuan Fat Garden 19-Andar-A Macau
	Mr. Teoh Chun Ming Flat D, 18/F Block 6, Verbena Heights 8 Mau Tai Road Tseung Kwan O Hong Kong
Audit Committee	Mr. Chan Siu Wing, Raymond *(Chairman)*
	Mr. Zhang Sen Lin
	Mr. Ho King Fung, Eric
Remuneration Committee	Professor Li Kwok Cheung, Arthur *(Chairman)*
	Mr. Zhang Sen Lin
	Mr. Ho King Fung, Eric
Executive Committee	Mr. Se Hok Pan *(Chairman)*
	Ms. Un Son I

CORPORATE INFORMATION

Cayman Islands Principal Share Registrar and Transfer Office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Bankers	The Hongkong and Shanghai Banking Corporation Limited Macau Main Office 639 Avenida Da Paia Grande Macau
	Industrial and Commercial Bank of China, Shunde Foshan Branch No. 6 Da Liang Bi Jian Road, Shunde District Foshan City, Guangdong Province PRC
	Standard Chartered Bank (Hong Kong) Limited 13th Floor Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong

This section contains information and statistics primarily relating to China's flooring industry. We have derived such information and statistics from the Frost & Sullivan Report, as well as certain public available sources. See "Sources of Information" below. We believe that the sources of such information are appropriate sources for such information and we have taken such care as we consider reasonable in the reproduction and extraction of such information and statistics. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in all material aspects. However, none of our Company, ● has independently verified the information and statistics derived directly or indirectly from the Frost & Sullivan Report or any public available sources and none of our Company, ● makes any representation as to their correctness or accuracy. Accordingly, you should not place undue reliance on such information and statistics contained in this section.

SOURCES OF INFORMATION

The information contained in this section is mainly prepared by Frost & Sullivan. We have also derived information from China's National Bureau of Statistics, the International Monetary Fund and the Ministry of Housing and Urban-Rural Development of the PRC.

Frost & Sullivan is an independent global consulting firm that was founded in New York in 1961. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

We have commissioned Frost & Sullivan to conduct an analysis of, and to report on, China's flooring market for the period from 2005 to 2014, as well as a consumer survey to understand consumer behavior and company brand awareness, which was completed in February 2011. In connection with the preparation of the Frost & Sullivan Report, we have paid Frost & Sullivan a fee of approximately RMB1.1 million that the Directors consider to reflect market rates.

The Frost & Sullivan Report includes information on China's flooring market, China's wood flooring market, China's laminated flooring market, China's engineered flooring market, China's solid wood flooring market, the global wood flooring market overview, and other economic data. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions and parameters:

- Frost & Sullivan has assumed that China's economy is likely to maintain a steady growth rate in the next decade; and China's social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of China's wood flooring industry; and
- Frost & Sullivan has considered related industry key drivers that are likely to drive China's wood flooring market in the forecast period, including rising disposable income of Chinese consumers, continued urbanization driving increased demand for housing,

PRC government support and initiatives in housing, increasing renovation activities and consumer preferences driving increasing penetration of wood flooring.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has also adopted the following methodologies:

- A primary research involving 100 leading industry participants to discuss the status of China's flooring industry. These industry participants are from flooring brand companies and distributors, as well as industry experts. Through this primary research, Frost & Sullivan has obtained the information in relation to annual retail sales volume, annual retail sales value and market share for the top five brands;
- A customer survey with 1,080 interviews of the current and potential customers of Company and its key competitors across 12 municipal and provincial capital cities in China, including Shanghai, Beijing, Guangzhou, Jinan, Chengdu, Wuhan, Shenyang, Changsha, Hefei, Harbin, Chongqing and Guiyang. Through this customer survey, Frost & Sullivan has obtained the information in relation to consumer behavior and company brand awareness; and
- A secondary research involving the reviews of company reports, independent research reports and data based on Frost & Sullivan's own research database. Frost & Sullivan has obtained the figures for the estimated total market size in China from historical data analysis plotted against macroeconomic data and the related information for the industry key drivers.

INTRODUCTION

Our Company's growth prospects are primarily affected by the development of China's flooring market, the key characteristics and growth drivers of China's wood flooring market and the growth prospects and competitive landscape of the key wood flooring product segments in China.

According to Frost & Sullivan, China's flooring market has grown rapidly, but it is still at an early stage of development and remains significantly under penetrated, with approximately 71.0% of China's total available floorspace of 55.3 billion sq.m. not covered by any flooring products in 2009. The uncovered floorspace percentage is expected to decrease to 65.9% by 2014 as the penetration of flooring products continues. As of the end of 2009, wood flooring products were the second largest flooring product category in China, accounting for 10.0% of total installed floorspace and forecasted to increase to 16.4% by the end of 2014. Driven by changing consumer preferences, higher disposable income and improving living standards, wood flooring products have become increasingly popular.

As of the end of 2009, China's wood flooring market was the world's largest wood flooring market in terms of both retail sales volume and retail sales value of wood flooring. China's wood flooring market is primarily a consumer and retail driven market, where 90.0% of the retail sales volume was sold through retail stores in 2009. According to Frost & Sullivan, China's wood flooring market has the following key characteristics:

- brand is the most important consideration for retail consumers in purchasing wood flooring;
- retail stores are the primary sales channel for wood flooring products;

- retail consumers continue to drive market demand for wood flooring products; and
- fragmented market with increasing industry consolidation.

The annual retail sales value of China's wood flooring products reached RMB47.8 billion in 2009, representing a CAGR of 14.2% from 2005 to 2009 and is expected to grow at a CAGR of 19.3% from 2009 to 2014. The key drivers of growth are:

- rising disposable income of Chinese consumers;
- continued urbanization driving increased demand for housing;
- PRC government support and initiatives in housing;
- increasing renovation activities; and
- consumer preferences driving increasing penetration of wood flooring.

China's wood flooring market is comprised primarily of three key product segments: laminated flooring, engineered flooring and solid wood flooring. According to Frost & Sullivan, solid wood flooring has been the largest product segment in terms of retail sales value during the past five years and laminated flooring is expected to become the largest product segment in China's wood flooring market by 2014. According to Frost & Sullivan, in 2009, "Nature" (大自然) 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 retail sales value in China.[1] See "Business — Our Branded Products."

OVERVIEW OF CHINA'S FLOORING MARKET

Overview

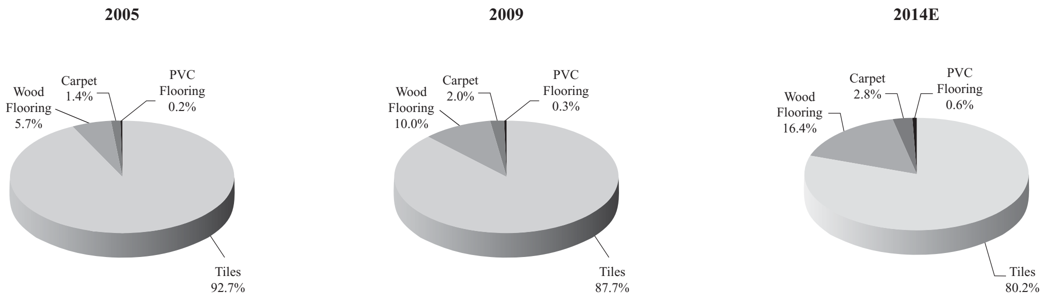
According to Frost & Sullivan, China's flooring market has grown significantly over the past five years, reaching a total installed floorspace of 16.1 billion sq.m. in 2009, representing 29.0% of China's total available floorspace, and is expected to reach a total installed floorspace of 23.7 billion sq.m. in 2014, representing 34.1% of China's total available floorspace of 69.5 billion sq.m. in 2014. Compared to the established flooring markets of developed countries, China's flooring market is still at an early stage of development and remains significantly underpenetrated, with approximately 71.0% of China's total available floorspace of 55.3 billion sq.m. not covered by any flooring products in 2009. In contrast, in the U.S., the uncovered floorspace is less than 10% of the total available floorspace. The significant area of uncovered floorspace in China presents a large potential market for Chinese flooring products. The market penetration of flooring products is expected to continue to increase as consumers,

(1) 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 greater than 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.

driven by higher disposable income, increasing purchasing power, as well as changing lifestyle preferences, install flooring products for new homes or to renovate their existing homes.

According to Frost & Sullivan, as of the end of 2009, wood flooring was the second largest flooring product category in China, accounting for 10.0% of the total installed floorspace up from 5.7% as of the end of 2005 and is forecasted to increase to 16.4% in 2014. Set forth below are the historical and estimated total installed floorspace by product category as of the end of the years indicated:

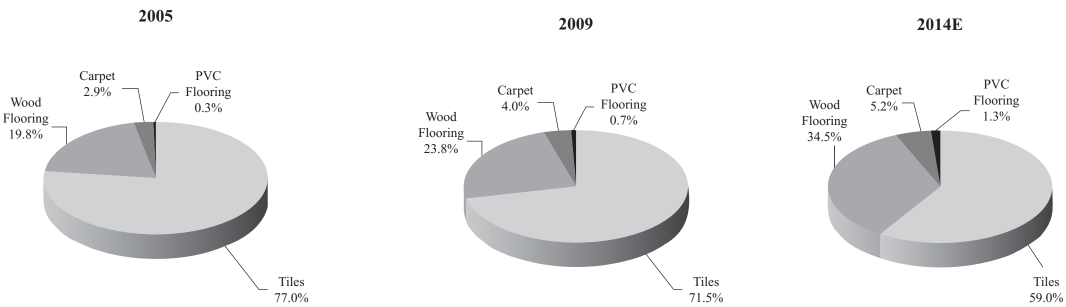
China Flooring Market: Total Installed Floorspace by Product Category



Source: Frost & Sullivan Report

Tile flooring is the largest product category in China’s flooring market in terms of annual retail sales volume, but it has gradually lost market share to wood flooring and other flooring types, as its market share decreased from 77.0% in 2005 to 71.5% in 2009. In the 1980s, tiles were widely used to cover cement areas because they were affordable and easy to install; many consumers could not afford solid wood flooring, which was the only wood flooring product available in China at the time. However, driven by changing consumer preferences, higher disposable incomes and improving living standards in China, wood flooring products have become increasingly popular, and in particular, laminated flooring has gained popularity as a low price wood flooring product that retains the appearance of solid wood flooring. According to Frost & Sullivan, of the 1,316.3 million sq.m. of annual flooring product retail sales volume sold in 2009, wood flooring accounted for 23.8%, up from 19.8% in 2005. Frost & Sullivan further expects the contribution of wood flooring to reach 34.5% of the annual flooring product retail sales volume of 2,031.3 million sq.m. during 2014. Set forth below are the historical and estimated annual flooring product retail sales volume by product category for the years indicated:

China Flooring Market: Annual Flooring Product Retail Sales Volume by Product Category

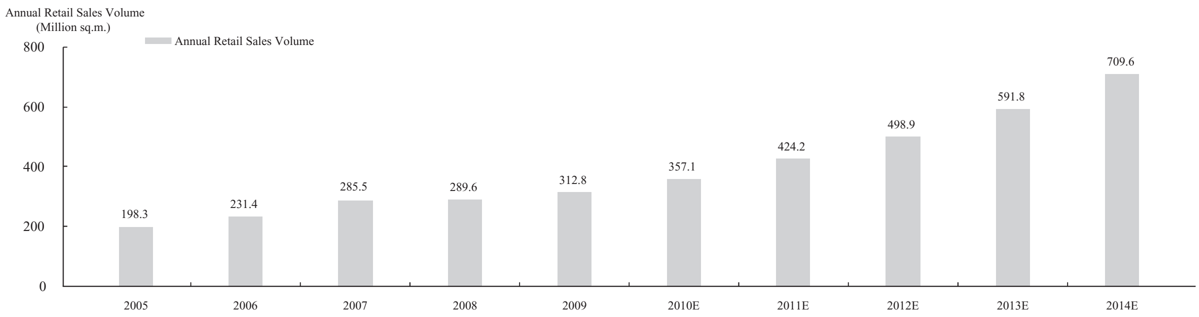


Source: Frost & Sullivan Report

OVERVIEW OF CHINA'S WOOD FLOORING MARKET

According to Frost & Sullivan, China was the world's largest wood flooring market in terms of both annual retail sales volume and retail sales value of wood flooring in 2009. The annual retail sales volume of wood flooring increased from 198.3 million sq.m. in 2005 to 312.8 million sq.m. in 2009, a CAGR of 12.1% over that period, and is expected to reach 709.6 million sq.m. in 2014, a CAGR of 17.8% from 2009 to 2014. Set forth below are the historical and estimated annual retail sales volume in China's wood flooring market for the years indicated:

China's Wood Flooring Market: Annual Wood Flooring Retail Sales Volume



Source: Frost & Sullivan Report

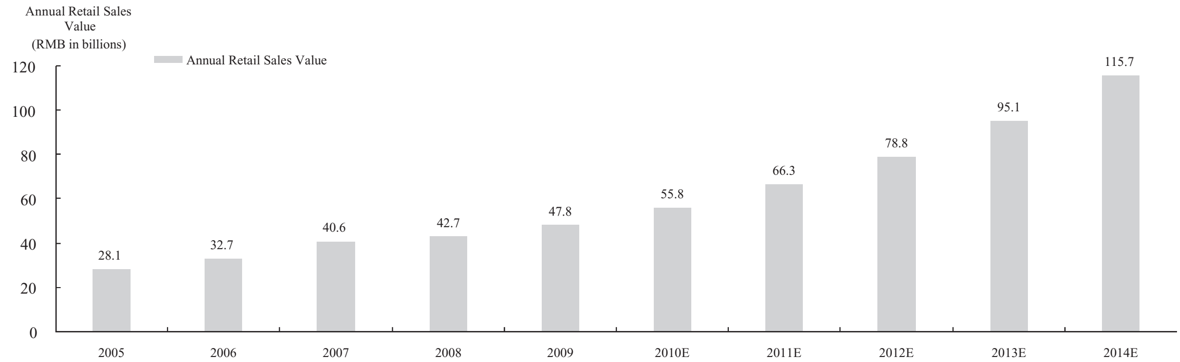
In comparison, the annual retail sales volume of wood flooring in China for 2009 was 4.6 times larger than in the U.S., which only totaled 67.7 million sq.m., and was also much larger than in any country in Europe. Set forth below is the annual retail sales volume, in amount as well as a percentage of the total annual retail sales volume, of the major countries in 2009:

	For the Year Ended December 31, 2009	
	(million sq.m., except percentages)	
Europe(1)	362.9	44.1%
China	312.8	38.0
U.S	67.7	8.2
Japan	40.5	4.9
Others	39.9	4.8
Total	**823.7**	**100.0%**

Note:
(1) The leading countries are Germany, Italy, Spain and France, each with less than 20% market share of the entire Europe.

According to Frost & Sullivan, the total retail sales value of China's wood flooring products reached RMB47.8 billion in 2009, a CAGR of 14.2% from 2005 to 2009. Driven by increasing average retail prices and sales volume, the total retail sales value is expected to reach RMB115.7 billion by 2014, reflecting a CAGR of 19.3% from 2009 to 2014. China's retail sales value of wood flooring products was much higher than any other country in 2009 due to its large amount of retail sales volume, even though the average wood flooring retail selling price in certain developed countries (such as European countries and the U.S.) was slightly higher than in China. Set forth below are the historical and estimated annual retail sales value in China's wood flooring market for the years indicated:

China's Wood Flooring Market: Annual Wood Flooring Retail Sales Value



Source: Frost & Sullivan Report

In comparison, the annual retail sales value of wood flooring in China for 2009 was 4.4 times larger than in the U.S., which only totaled US$1.6 billion, and was also much larger than in any country in Europe. Set forth below is the annual retail sales value, in amount as well as a percentage of the total annual retail sales value, of the major countries in 2009:

	For the Year Ended December 31, 2009	
	(US$ in billions, except percentages)	
Europe[(1)]	8.7	45.8%
China	7.0	36.8
U.S.	1.6	8.4
Japan	0.9	4.7
Others	0.8	4.2
Total	19.0	100.0%

Note:

(1) The leading countries are Germany, Italy, Spain and France, each with less than 20% market share of the entire Europe.

Reflecting the growth in retail sales volume and retail sales value, China's total installed wood flooring has increased from 555.3 million sq.m. in 2005 to 1,607.4 million sq.m. in 2009, and is expected to increase to 3,887.6 million sq.m. by 2014.

According to Frost & Sullivan, from 2007 to 2009, Nature ranked second, first, and first among all brands in terms of annual retail sales value in China's wood flooring market, with a market share of 3.9%, 6.1% and 6.5%, respectively. Set forth below is the market share[(1)] by annual retail sales value of the top five brands in China's wood flooring market for the years indicated:

Top Five Wood Flooring Brands: Market Share by Annual Retail Sales Value in China

2007		2008		2009	
Brands	Market Share	Brands	Market Share	Brands	Market Share
Power Dekor	5.0%	Nature	6.1%	Nature	6.5%
Nature	3.9%	Power Dekor	5.4%	Power Dekor	5.6%
Ark Floors	2.3%	Ark Floors	2.4%	Sunyard	2.3%
Vohringer	1.9%	Sunyard	2.2%	Ark Floors	2.3%
Shengda Forestry	1.8%	Vohringer	2.0%	Vohringer	1.9%
Total	**14.9%**		**18.0%**		**18.7%**

Source: Frost & Sullivan Report

Key Characteristics of China's Wood Flooring Market

Brand is the Most Important Consideration for Retail Consumers in Purchasing Wood Flooring

Consumers in China generally prefer well-known brands when purchasing wood flooring in order to lower the risk of purchasing low quality products or products with poor product safety, and out of concerns of receiving unreliable or limited after-sales customer service from lesser known brands. According to a consumer survey conducted by Frost & Sullivan, which included 1,080 respondents from 12 municipalities and provincial capital cities in China, about 31.3% of the respondents stated that brand is the most important factor in the selection of wood flooring products, followed by quality (29.7%), environmental concept (15.8%), and price (15.3%). In addition, most participants surveyed indicated that they would pay a premium for branded products over non-branded wood flooring products, and approximately 50% indicated that they would pay a premium of 11%-20% for branded wood flooring products. The survey also indicated strong brand awareness and recognition of the "Nature" (大自然) brand among Chinese consumers. The highest percentage of participants in the survey named "Nature" (大自然) when asked which wood flooring brand first came to mind.

Retail Stores are the Primary Sales Channel for Wood Flooring Products

A substantial majority of wood flooring manufacturers in China sell their products to distributors, who in turn sell the products to retail consumers through retail stores. These retail stores are primarily located in home furnishing supermarkets and shopping malls, such as Macalline, which sell not only flooring but also other decoration products and furniture. A portion of retail stores are also located outside of home furnishing markets and malls as stand-alone retail stores.

(1) The market share data includes retail sales value of branded products manufactured by our own factories as well as products manufactured 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 manufacturing 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.

According to Frost & Sullivan, the retail store sales channel accounted for approximately 90.0% of the annual retail sales volume in China for wood flooring products in 2009. The remaining annual retail sales volume was generated from sales to property developers, which accounted for 7.0% of the annual retail sales volume, and direct sales in home furnishing supermarkets, which accounted for 3.0% of the annual retail sales volume. Unlike certain other markets, such as the U.S., the home furnishing supermarket is still a small and undeveloped sales channel in China with limited nationwide coverage. As such, retail stores are expected to remain the largest sales channel during the forecast period.

Retail Consumers Continue to Drive Market Demand for Wood Flooring Products

The vast majority of newly built homes in China's residential real estate market are sold as unfurnished units. According to Frost & Sullivan, during 2009, unfurnished units accounted for more than 80.0% of the total newly completed residential real estate in China. While furnished units are usually decorated by property developers, for unfurnished units the individual property owners make the decisions on home furnishing and decoration, such as for wood flooring products. Frost & Sullivan expects the trend of unfurnished units representing the vast majority of the completed residential real estate to continue during the forecast period. As a result, retail consumers are expected to continue to drive market demand for wood flooring products during the forecast period.

Fragmented Market Experiencing Increasing Industry Consolidation

According to Frost & Sullivan, as of 2009, there were approximately 2,500 wood flooring brands in China, many of which were small regional companies. While the market share of the top five brands (in terms of annual retail sales value) has increased from 14.9% in 2007 to 18.7% in 2009, this is significantly below the level of consolidation in the U.S. where the top five wood flooring brands accounted for over 60% of the annual retail sales volume in 2009. During the forecast period, the wood flooring industry is expected to continue consolidating, and established market leaders are positioned to gain additional market share by leveraging their well-recognized brands, extensive distribution network, broad product offerings, and ability to provide more reliable after-sales service as compared to smaller industry players. These competitive advantages create strong entry barriers for potential new entrants and further increase the market leadership of the established players.

KEY DRIVERS OF GROWTH FOR CHINA'S WOOD FLOORING MARKET

The key drivers of growth for China's wood flooring market include: rising disposable income of Chinese consumers, continued urbanization driving increased demand for housing, PRC government support and initiatives in housing, increasing renovation activities, and consumer preferences driving increasing penetration of wood flooring.

Set forth below is certain historical and estimated data regarding China's economy for the years indicated:

	2005	2006	2007	2008	2009	2005-2009 CAGR	2009-2014 CAGR (Estimated)
Nominal GDP (RMB in billions)	18,493.7	21,631.4	26,581.0	31,404.5	34,050.7	16.5%	12.6%
Per capita nominal GDP (RMB)	14,185.4	16,499.7	20,169.5	23,707.7	25,575.5	15.9%	12.0%
Per capita annual disposable income for urban households (RMB)	10,493.0	11,759.5	13,785.8	15,780.8	17,174.7	13.1%	11.1%
Per capita annual net income for rural households (RMB)	3,254.9	3,587.0	4,140.4	4,760.6	5,153.2	12.2%	13.4%
Total retail sales of consumer goods (RMB in billions)	6,835.3	7,914.5	9,357.2	11,483.0	13,267.8	18.0%	14.5%
Urban population (millions)	562.1	577.1	593.8	606.7	621.9	2.6%	3.3%
Urbanization rate (%)	43.0%	43.9%	44.9%	45.7%	46.6%	—	—

Sources: National Bureau of Statistics, the International Monetary Fund and Frost & Sullivan Report

Rising Disposable Income of Chinese Consumers

According to Frost & Sullivan, from 2005 to 2009, the per capita annual disposable income in urban households has increased from RMB10,493.0 to RMB17,174.7, a CAGR of 13.1%, and is forecasted to reach RMB29,030.5 by 2014, a CAGR of 11.1% from 2009 to 2014. In addition, the per capita annual disposable income in rural households increased from RMB3,254.9 to RMB5,153.2 during the same period, a CAGR of 12.2%, and is forecasted to reach RMB9,668.0 by 2014, a CAGR of 13.4% from 2009 to 2014. As disposable income and purchasing power continue to grow, Chinese consumers have been improving and upgrading their living standards and preferences, which has driven the purchase of wood flooring products. For example, the market share in terms of annual retail sales volume of wood flooring products as a percentage total flooring products has increased from 19.8% in 2005 to 23.8% in 2009, and is expected to reach 34.5% by 2014. Meanwhile, the market share of annual retail sales volume of tiles is expected to decrease from 71.5% in 2009 to 59.0% in 2014, as consumers upgrade from flooring tiles to wood flooring.

In addition, according to the Ministry of Housing and Urban-Rural Development of the PRC, as of 2009, the average residential space per capita in China was approximately 30 sq.m., which is significantly lower than developed nations such as the U.S., where the average residential space per capita reached approximately 70 sq.m. as of 2009. As disposable income increases and living standards improve, Frost & Sullivan expects that residential space per capita would continue to grow as people upgrade to larger living spaces.

Continued Urbanization Driving Increased Demand for Housing

China's urban population has been steadily increasing as a result of China's rapid economic development, and as people from less developed areas seek better job opportunities and higher income and living standards in urban areas. From 2005 to 2009, China's urban population increased 10.6% from 562.1 million to 621.9 million, a net increase of 59.8 million, reaching an urbanization rate of 46.6%. Frost & Sullivan estimates that by 2014, China's urban population is expected to reach 732.3 million, or an urbanization rate of 53.5%, representing a net increase in the urban population of 110.4 million people over the forecast period. We believe that the growing urban population will result in growing demand for housing in urban areas and accordingly drive demand for wood flooring. According to Frost & Sullivan, 2.6 billion sq.m. of new available floorspace was added in 2009, and 14.2 billion sq.m. new available floorspace is expected to be added to address floorspace and housing needs in China from 2010 to 2014.

PRC Government Support and Initiatives in Housing

The PRC government has implemented a number of policies aimed at improving living standards and addressing housing difficulties in less developed and rural areas of China. For example in November 2008, the PRC government announced the "Low-Income Housing Three-Year Plan" where the PRC government planned to deploy RMB900 billion to construct six million units low-income housing (保障性住房) for low-income families over three years. In December 2010, The Ministry of Housing and Urban-Rural Development of the PRC (住房和城鄉建設部) promulgated Circular Regarding Submitting the Assignment of Urban Low-income Housing Plan (關於報送城鎮保障性安居工程計劃任務的通知) (the "Circular"). According to the Circular, the PRC government has planned to construct an additional 10 million units of low-income housing in 2011. In addition, in January 2010, the PRC government launched an initiative to improve the living standards in rural areas of China by subsidizing the selling prices of housing and decoration products. In March 2011, according to the Twelfth Five-Year Plan, the PRC government extended its support to low-income housing by announcing a plan to construct a total of 36 million units of low-income housing over five years. In the PRC Government Report of 2011, the PRC government plans to further expand the construction of low-income housing. The PRC government plans to begin construction of 10 million units of low-income housing and shanty town renovation housing. The PRC government plans to allocate RMB103 billion in its budget for the year of 2011 as subsidies to the construction of low-income housing.

These PRC government policies and initiatives are expected to drive continued construction of housing in under-developed regions, increasing demand for such affordable housing and, as a result, stimulate the demand for wood flooring products in these areas. In addition, as the property becomes more affordable, buyers are expected to be willing to spend more on housing decoration, thereby increasing the demand for our wood flooring products. We expect that the PRC government support will be especially beneficial to the long-term growth of the laminated wood flooring market, given its lower price point. We believe we are well positioned to benefit from this growth and generate increased sales of our laminated flooring product particularly under our sub-brand "Nature・No. 1 My Space" (大自然・第一空間) and "Nature・Yijia" (大自然・宜家). In particular, our laminated flooring sub-brand "Nature・No. 1 My Space" (大自然・第一空間) is positioned in the market to specifically target those entry-level and lower budget customers whom these government policies also intend to benefit.

Increasing Renovation Activities

During the forecast period, China's residential market is expected to experience a continued increase in home renovation and upgrade activities. We believe consumers who first installed flooring approximately 10 years ago are expected to replace their original flooring in the near future as a result of the natural replacement of old flooring, as well as upgrading of existing wood flooring. Renovation as a percentage of total flooring product retail sales volume in 2009 was 20.7% in China, which is significantly lower than 55.0% in the U.S. or 62.0% in Western Europe in 2009, and indicate a significant growth opportunity. According to Frost & Sullivan, renovation as a percentage of annual flooring product retail sales volume is expected to reach 22.9% by 2014 compared to 17.9% in 2005, implying a large and growing future market from renovations.

Consumer Preferences Driving Increasing Penetration of Wood Flooring

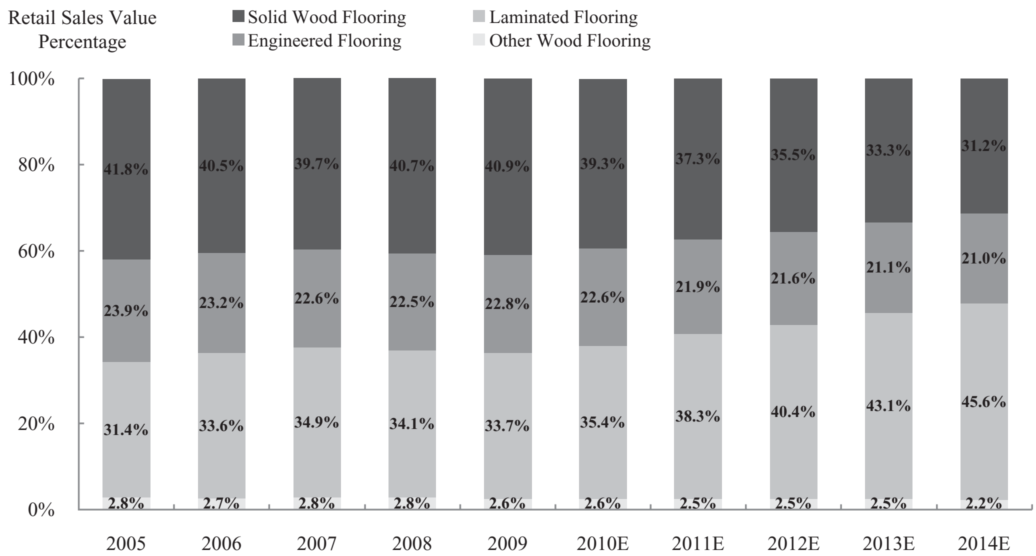
During the forecast period, the market share of wood flooring is expected to continue increasing, primarily as consumer preference and rising purchasing power drive product upgrades to wood flooring from less expensive flooring categories, and as more consumers are attracted to the advantages offered by wood flooring, such as attractive appearance, strong thermal insulation and high performance relative to cost compared to other flooring alternatives. According to Frost & Sullivan, the annual retail sales volume of wood flooring products increased from 198.3 million sq.m. in 2005 to 312.8 million sq.m. in 2009 with a corresponding market share increase from 19.8% to 23.8%, and wood flooring market share is expected to further grow to 34.5% of the annual flooring retail sales volume in 2014.

Despite the strong growth of China's wood flooring market over the past five years, the per capita volume of installed wood flooring in China remains significantly lower than that of other developed markets. According to Frost & Sullivan, China's per capita volume of installed wood flooring reached 1.2 sq.m. per capita as of 2009 compared to 6.0 sq.m. per capita in the U.S. and 7.9 sq.m. per capita in Western Europe, presenting significant future potential for further market penetration.

KEY SEGMENTS OF THE WOOD FLOORING MARKET

The wood flooring market is comprised primarily of laminated flooring, engineered flooring and solid wood flooring. Set forth below are historical and estimated annual retail sales value percentage by wood flooring product segment in China for the years indicated:

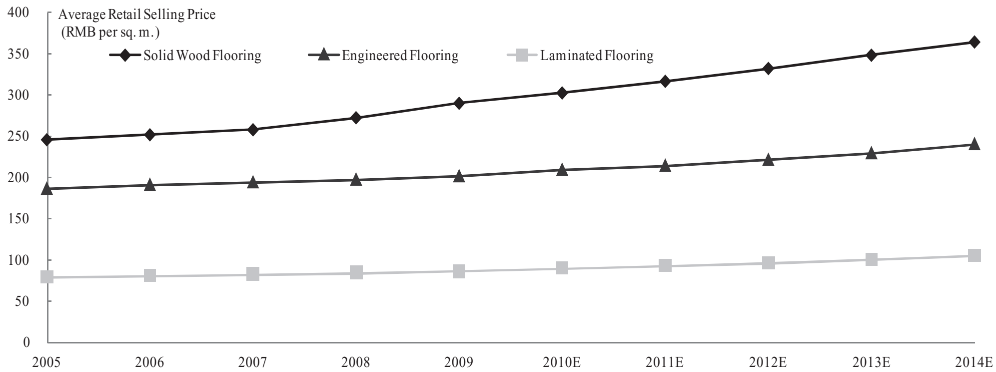
Annual Retail Sales Value Percentage by Product Segment in China's Wood Flooring Market



Source: Frost & Sullivan Report

According to Frost & Sullivan, solid wood flooring has been the largest product segment in terms of retail sales value during the past five years. In 2009, 33.7% of the total retail sales value was from laminated flooring, 22.8% from engineered flooring and 40.9% from solid wood flooring. Frost & Sullivan forecasts that from 2009 to 2014, the growth rate of laminated flooring is expected to grow at a CAGR of 26.8%, which is faster than the forecasted growth of engineered and solid wood flooring. As a result, laminated flooring is expected to become the largest product segment in the wood flooring market by 2014 with a 45.6% market share, solid wood flooring being second largest with a 31.2% market share, and engineered wood flooring being third largest with a 21.0% market share, each in terms of retail sales value. Set forth below is the historical and estimated average retail selling price by product segment in China for the years indicated:

Average Retail Selling Price by Product Segment in China



Source: Frost & Sullivan Report

The average retail selling price of these product segments have historically increased and are expected to trend upwards; solid wood flooring, in particular, is forecasted to experience the highest price increase.

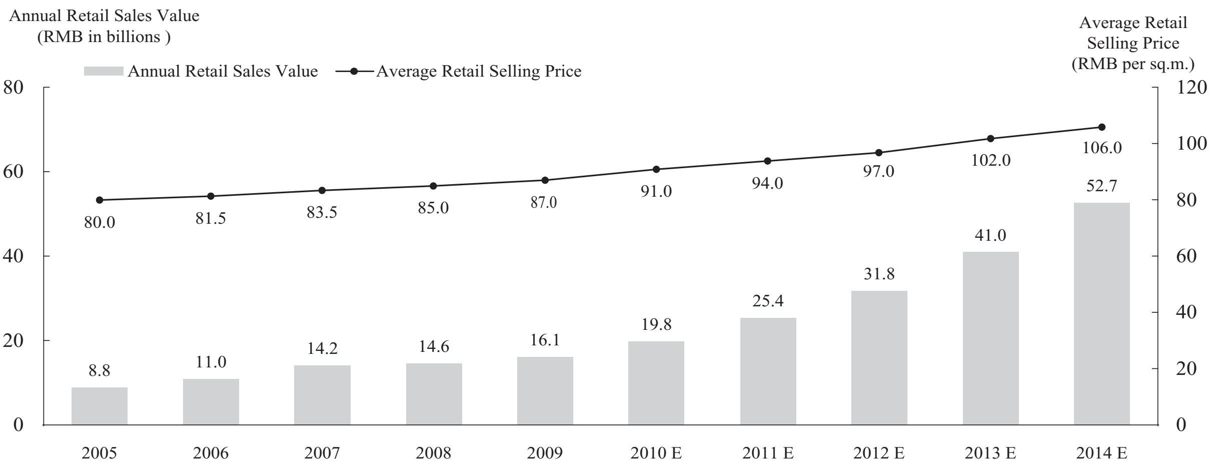
Laminated Flooring

Laminated floorings consist of multiple layers that include a moisture-proof foundation layer, a layer of composite fiberboard, a design layer with a high-resolution replication photo of wood or a variety of other motifs and a wear-resistant, laminated surface layer. Laminated flooring can be designed in a wide variety of styles and textures and its construction enables the product also to be resistant to humidity and temperature changes. As composite fiberboard, which consists primarily of wood chips and glue, is less expensive than solid wood and plywood, laminated flooring is generally more affordable than either solid wood flooring or engineered flooring, and is priced at a lower price point and marketed toward mass market consumers.

According to Frost & Sullivan, from 2005 to 2009, laminated flooring has experienced the most rapid growth among all wood flooring product segments. In the forecast period, the laminated flooring market segment is expected to benefit the most from favorable government policies, such as the PRC government's support to construct low-income housing and the initiative subsidizing the selling prices of home building and decoration products in rural areas.

From 2005 to 2009, the annual retail sales value of laminated flooring in China increased from RMB8.8 billion to RMB16.1 billion, reflecting a CAGR of 16.2%. During the forecast period, the annual retail sales value is expected to increase from RMB19.8 billion to RMB52.7 billion, with a CAGR of 26.8%. Set forth below are the historical and estimated annual retail sales value in China's laminated flooring market and the average retail selling price for the years indicated:

Laminated Flooring Market: Annual Retail Sales Value in China



Source: Frost & Sullivan Report

Key Brands in the Laminated Flooring Market

According to Frost & Sullivan, the top five brands contributed 31.3% of the annual retail sales value of the laminated flooring segment in 2009. Nature ranked second in annual retail sales value in 2009 with a market share of 7.2%. Nature began selling laminated flooring in 2005. Nature's market share ranking by annual retail sales value increased quickly, from fifth in 2007 to second in 2008, when Nature's volume increased at a CAGR of 45.8%, compared to industry growth of 4.4%. Set forth below is the market share of the top brands of laminated flooring by annual retail sales value in China from 2007 to 2009:

Top Five Laminated Flooring Brands: Market Share by Annual Retail Sales Value in China

2007		2008		2009	
Brands	Market Share	Brands	Market Share	Brands	Market Share
Power Dekor	9.3%	Power Dekor	10.5%	Power Dekor	11.3%
Vohringer	4.7%	Nature	5.0%	Nature	7.2%
Der	4.3%	Vohringer	5.0%	Vohringer	4.8%
Shengda Forestry	3.6%	Der	4.3%	YangZi Flooring	4.0%
Nature	3.5%	YangZi Flooring	3.8%	Der	4.0%
Total	**25.3%**		**28.7%**		**31.3%**

Source: Frost & Sullivan Report

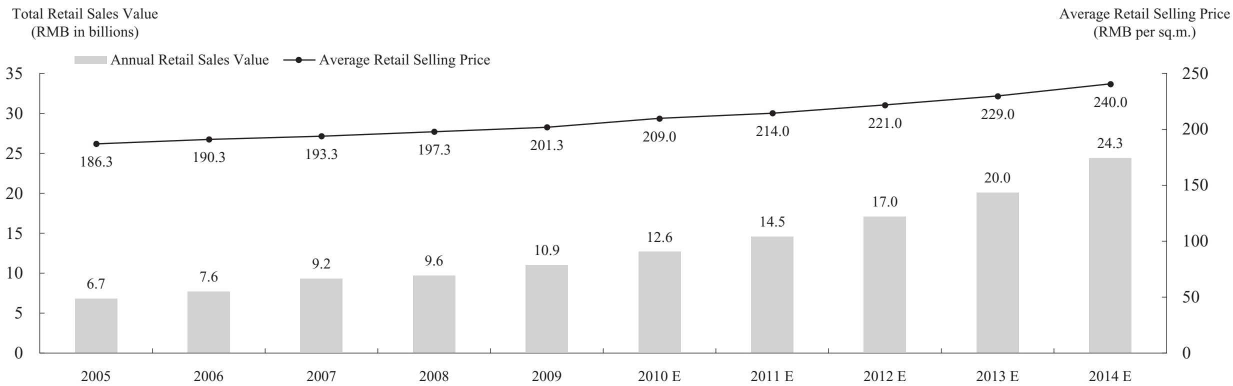
During the Track Record Period, we manufactured all of our branded laminated flooring.

Engineered Flooring

Engineered flooring retains the natural wood feel of solid wood flooring while offering more versatility due to its construction. Rather than using a single solid piece of wood, several pieces of wood are stacked on top of each other in opposite directions, resulting in a more dimensionally stable wood flooring product that is also less sensitive to changes in temperature and humidity than solid wood flooring. Engineered flooring is a medium to high-end product that is generally more affordable than solid wood flooring because it is manufactured with a combination of a thinner solid wood layer and plywood.

According to Frost & Sullivan, the annual retail sales value of engineered flooring in China increased from RMB6.7 billion in 2005 to RMB10.9 billion in 2009, reflecting a CAGR of 12.8%, and is expected to grow at a CAGR of 17.4% during the forecast period to 24.3 billion in 2014. Set forth below are the historical and estimated annual retail sales value in China's engineered flooring market and the average selling price for the years indicated:

Engineered Flooring Market: Annual Retail Sales Value in China



Source: Frost & Sullivan Report

Depending on the number of layers of wood or wood-based panels that is used in the manufacturing process, engineered flooring is generally divided into two segments: multi-layered engineered flooring and three-layered engineered flooring. In China, three-layered engineered flooring is mainly produced for export, and as a result, multi-layered engineered flooring has dominated China's engineered flooring market. Multi-layered engineered flooring, accounted for 88.0% of engineered flooring annual retail sales volume in 2009, is expected to continue to comprise the largest share of the engineered flooring market during the forecast period.

Key Brands in the Multi-layered Engineered Wood Flooring Market

According to Frost & Sullivan, the top five brands contributed 17.3% to the annual retail sales of multi-layered engineered flooring segment in 2009. Of all the brands in China, Nature ranked first in 2009 in terms of annual retail sales value, with a market share of 5.3%. Set forth below is the market share of the top brands of multi-layered engineered flooring by annual retail sales value in China from 2007 to 2009.

Top Five Multi-Layered Engineered Flooring Brands: Market Share by Annual Retail Sales Value in China

2007		2008		2009	
Brands	Market Share	Brands	Market Share	Brands	Market Share
Power Dekor	4.6%	Power Dekor	5.1%	Nature	5.3%
Nature	3.5%	Nature	4.9%	Power Dekor	4.6%
Shengda Forestry	3.0%	Shengda Forestry	3.1%	Ark Floors	2.6%
Ark Floors	2.6%	Ark Floors	2.7%	Shengda Forestry	2.5%
Sinomaple	2.2%	Sinomaple	2.3%	Sinomaple	2.3%
Total	**15.8%**		**18.1%**		**17.3%**

Source: Frost & Sullivan Report

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, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1% of the total Wholesale Volume of our branded engineered flooring products, respectively.

Both we and authorized manufacturers manufacture our branded engineered flooring products. As authorized manufacturers are obligated to sell our branded products to our exclusive distributors to whom we also sell products manufactured at our own factories, there may be competition between us and authorized manufacturers in selling engineered flooring products to the same group of distributors. Such competition may relate to, among other factors, the pricing of the products.

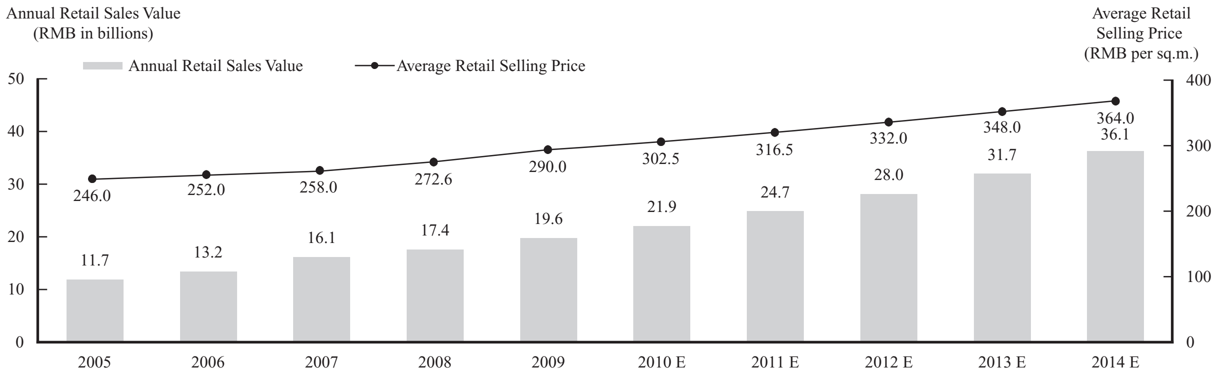
Solid Wood Flooring

Solid wood flooring is manufactured with a single plank of high-quality solid wood, generally without the use of glue, which is then dried, polished and coated to produce a natural flooring product that exhibits the varying colors, textures and fragrance of the bare wood. The product can be further hand-engraved to produce a surface with varying desired patterns. Due to the use of a solid piece of natural wood, solid wood flooring generally has a higher price point and is marketed toward more affluent customers.

The rising purchasing power of middle to high income consumers, along with the increasing demand for high quality products, has driven the growth of China's solid wood flooring market historically, and is expected to continue to do so in the future. Moreover, since the majority of the raw materials used in the production of solid wood flooring are imported, solid wood manufacturers based in China are expected to benefit from any further appreciation of the Renminbi, which would lower the cost of raw materials purchased in the international market.

According to Frost & Sullivan, the annual retail sales value of solid wood flooring in China increased from RMB11.7 billion to RMB19.6 billion from 2005 to 2009, with a CAGR of 13.6%, and is expected to continue growing at a CAGR of 13.0% from 2009 through 2014, to RMB36.1 billion. Set forth below are the historical and estimated annual retail sales value in China's solid wood flooring market and the average retail selling price for the years indicated:

Solid Wood Flooring Market: Annual Retail Sales Value in China



Source: Frost & Sullivan Report

Key Brands in the Solid Wood Flooring Market

According to Frost & Sullivan, the top five brands contributed 19.5% to the annual retail sales value of the solid wood flooring segment in 2009. Of all the brands in China, Nature ranked first in terms of annual retail sales value for three consecutive years, from 2007 to 2009, with a market share of 7.4% in 2009. Set forth below are the market share of the top brands of solid wood flooring by annual retail sales value in China from 2007 to 2009.

Top Five Solid Wood Flooring Brands: Market Share by Annual Retail Sales Value in China

2007		2008		2009	
Brands	**Market Share**	**Brands**	**Market Share**	**Brands**	**Market Share**
Nature	5.0%	Nature	8.2%	Nature	7.4%
Treessun	3.0%	Sunyard	3.5%	Sunyard	3.7%
Sunyard	2.9%	Treessun	3.3%	Treessun	3.3%
Ark Floors	2.8%	Ark Floors	3.0%	Ark Floors	2.9%
Fudeli Flooring	1.8%	Fudeli Flooring	2.1%	Fudeli Flooring	2.2%
Total	**15.6%**		**20.2%**		**19.5%**

Source: Frost & Sullivan Report

During the Track Record Period, all of our branded solid wood flooring were manufactured by authorized manufacturers.

OVERVIEW OF THE MARKETS OF WOOD DOORS, WOOD WARDROBES AND WOOD CABINETS

A wood door refers to a door whose major component is wood material. According to Frost & Sullivan, the annual retail sales volume of wood doors in China is anticipated to continue growing, from 142.2 million sets in 2009 to 525.3 million sets in 2014, with a CAGR of 29.9%. The wood door industry's annual output value in China is also forecasted by Frost & Sullivan to increase from RMB65.0 billion in 2009 to RMB280.4 billion in 2014, with a CAGR of 34.0%.

A wood wardrobe refers to furniture that provides storage space for clothing. According to Frost & Sullivan, the annual retail sales value of wood wardrobes in China is expected to increase from RMB43.5 billion in 2009 to RMB160.5 billion in 2014, with a CAGR of 29.8%.

A wood cabinet, also known as "home kitchen wood furniture", refers to comprehensive kitchen wood furniture integrating different functions in the kitchen, such as cooking and storage. According to Frost & Sullivan, the annual retail sales value of wood cabinets in China is expected to increase from RMB81.6 billion in 2009 to RMB330.9 billion in 2014, with a CAGR of 32.3%.

According to Frost & Sullivan, the major forces driving the development of markets for wood doors, wood wardrobes and wood cabinets include:

- Real estate development in China;
- Implementation of new industry standards for wood doors and wood furniture;
- Consumers' shifting purchasing preferences; and
- Product design and innovation.

HISTORY AND DEVELOPMENT

The history of our "Nature" (大自然) brand can be traced back to 2001 when Mr. She Chang (佘昌), the father of one of our co-founders, Mr. Se Hok Pan (佘學彬), created the "Nature" (大自然) brand and a network of distributors in Shunde, PRC for his solid wood flooring business.

In October 2004, our co-founders, Mr. Se Hok Pan and Ms. Un Son I, established Zhongshan Nature, which subsequently became our wholly-owned subsidiary, and carried out our own assessment of the wood flooring market in China and began the preparatory work prior to the commencement of operation of our first factory in Guangdong Province, PRC for laminated flooring in April 2005. In 2005, Mr. She Chang transferred the "Nature" (大自然) brand to us at nil consideration, which is legal and valid under PRC law. In April 2005, the factory of Zhongshan Nature came into operation and in May 2005 we commenced the manufacturing of laminated flooring using the "Nature" (大自然) brand. Under the leadership of Mr. Se Hok Pan and Ms. Un Son I, we expanded our own distribution network and products portfolio. In early 2007, we acquired the distribution network from Mr. She Chang at a nominal consideration of RMB1.00 and in the same year, we started to establish our network of authorized manufacturers for our branded solid wood flooring and a portion of our branded engineered flooring. Mr. She Chang ceased his solid wood flooring business in early 2008.

Major milestones in our history up to the Latest Practicable Date are set forth below:

Year	Event
2001	Mr. She Chang (佘昌), the father of Mr. Se Hok Pan (佘學彬), one of our co-founders, created the "Nature" (大自然) brand and a network of distributors in Shunde, PRC for his solid wood flooring business.
2004	Mr. Se Hok Pan and Ms. Un Son I, our co-founders, established Zhongshan Nature, which subsequently became our wholly-owned subsidiary.
	"Nature" (大自然) brand was recognized as "China's Top Brand" (中國名牌產品), by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局).
2005	Mr. She Chang transferred the "Nature" (大自然) brand to us at nil consideration.
	Our first factory for laminated flooring came into operation and we commenced the manufacturing of laminated flooring using the "Nature" (大自然) brand.
2007	Our sub-brands "Nature・No. 1 My Space" (大自然・第一空間), "Nature · Yijia" (大自然・宜家) and "Woodsbür" (德獅堡) (which has since been re-named Nature・Woodsbür (大自然・德獅堡)) were introduced.
	We acquired the pre-existing distribution network from Mr. She Chang at a nominal consideration of RMB1.00 and commenced its reformation into the existing network of exclusive distributors.
	Our factories for manufacturing laminated flooring (eco flooring) and three-layered engineered flooring came into operation.
	We started to establish our network of authorized manufacturers for our branded solid wood flooring and a portion of our branded engineered flooring.

Year	Event
2008	Our sub-brand "Nature・Aesthetics"(大自然・美學館) was introduced.
	We were recognized by the World Wildlife Fund (WWF) as a "Merit Conservation Supporter."
	We were awarded the "Asia Top 500 Brands Award" (亞洲品牌500強) by the Expert Committee Presidium of Asia Brand Assessment System.
	Our factory for manufacturing multi-layered engineered flooring came into operation.
2009	Our third factory for manufacturing laminated flooring and our factories for manufacturing fiberboards and veneers came into operation.
	We began to selectively acquire strategic upstream forest assets and acquired standing trees and related concession rights in approximately 46,347 hectares of forests in the Loreto Province, Peru.
2010	We acquired standing trees and related concession rights in approximately 4,445 hectares of forests in Yunnan Province, China.
	We received the "Zero Carbon Certificate" (零碳証書) from the Shanghai Zero-Carbon Information Technology Center.
	We became the only designated flooring product provider for the Shanghai World Expo's London Zero Energy Development Case Pavilion.
	We received the "Chinese Brand of the Year 2010 and Ranking No. 1 in the Wood Flooring Category" (中國品牌年度大獎 No.1 (木地板行業)) from the World Brand Laboratory.

REORGANIZATION

Establishment of the current structure of the Group

In 2007, we began the Reorganization to streamline the structure of our Group, whereby our Company became the holding company of our Group. On July 27, 2007, our Company was incorporated under the laws of the Cayman Islands as an exempted company to act as the holding company of the subsidiaries in our Group. On the same date, one ordinary share of US$1 was allotted and issued to Marcia Donaldson and such ordinary share was transferred to Mr. Se Hok Pan. On the same date, 24,999 and 25,000 ordinary shares of US$1 each in the then issued share capital of our Company were allotted and issued to Mr. Se Hok Pan and Ms. Un Son I, respectively. On May 7, 2008, each of the then issued and unissued ordinary shares of US$1 each of our Company were subdivided into 1,000 Shares of US$0.001 each. On the same date, our Company allotted and issued a further 10,000,000 Shares to each of Mr. Se Hok Pan and Ms. Un Son I. On May 7, 2008, Mr. Se Hok Pan and Ms. Un Son I transferred their respective interests in our Company to Freewings and Freewings became our controlling shareholder. For further details about the change in the share capital of our Company, please refer to the paragraph headed "Investment by MS Flooring, IFC and Headland

HAV3" below and the section headed "Appendix IX — Statutory and General Information — Further Information about our Company and our Subsidiaries — Changes in share capital of our Group — The Company" to this document.

Pursuant to the Reorganization, Mr. Se Hok Pan and Ms. Un Son I transferred, directly or through the companies owned by them, their respective interests in our then subsidiaries to our Company. The Reorganization was completed on May 8, 2008 and our Company became the holding company of our Group. The SAFE issued a public notice, or the SAFE Circular No. 75, on October 21, 2005, which became effective on November 1, 2005. The SAFE Circular No. 75 requires PRC residents to register with the local SAFE branch before establishing or controlling any company, referred to in the SAFE Circular No. 75 as an "overseas special purpose vehicle," outside of the PRC for the purpose of overseas equity financing based on assets or interest in China, and to register again after completing an investment in or acquisition of any operating subsidiaries in the PRC. As advised by our PRC legal advisor, Haiwen & Partners, because none of Mr. Se Hok Pan, Ms. Un Son I and other beneficial owners of our Company are PRC residents under the SAFE Circular No. 75, they are not required to register with the SAFE in respect of their investments in our Group in accordance with PRC laws. For further details, please refer to the section headed "Appendix VIII — Summary of Principal PRC and Peruvian Legal and Regulatory Provisions — Laws and Regulations relating to Foreign Exchange" to the document.

After completion of the Reorganization on May 8, 2008, we established three new subsidiaries in Hong Kong, namely China Flooring Trading Company Limited, Sun Pine Investment Limited and Nature Casa Holding Company Limited, as investment holding companies. We also established three subsidiaries in the PRC, namely Jiangxi Forest for our plantation businesses, Nature Flooring (China) Co., Ltd. (大自然地板(中國)有限公司) for our trading of flooring products businesses, and Jiangxi Yingran for our laminated flooring manufacturing businesses.

For details of our subsidiaries which have undergone changes in their respective share capitals during the two years immediately prior to the date of this document, please refer to the sections headed "Appendix IX — Statutory and General Information — Further Information about our Company and our Subsidiaries — Changes in share capital of our Group — Our Subsidiaries" to this document.

Disposal of Asia Hero Enterprises Limited

In December 2010, we disposed of our entire shareholding interest in Asia Hero Enterprises Limited to an independent third party for a consideration of HK$48,000,000. The consideration was determined with reference to the fair value of the net assets of Asia Hero Enterprises Limited. A loss of approximately RMB232,000 was resulted from the disposal.

The sole asset of Asia Hero Enterprises Limited was its entire equity interest in Hailin Yingtai. Hailin Yingtai was engaged in the manufacturing of our three-layered engineered flooring before the disposal. The factory of Hailin Yingtai was located in Heilongjiang Province, the PRC, which was far away from the headquarters of the Group in Shunde, the PRC and the manufacturing capacity of Hailin was significantly smaller than those of our other manufacturing plants. This remote location and its relatively small operating scale of the factory of Hailin Yingtai made the management and logistics less efficient. In view of that, our Group decided to dispose of its equity interest in Asia Hero Enterprises Limited and Hailin Yingtai. For the years ended December 31, 2008, 2009 and 2010, the annual production capacity of Hailin Yingtai was 370,000, 370,000 and 340,000 sq.m., respectively. For the years ended December 31, 2008 and 2009, and from January 1, 2010 until the disposal of Asia Hero Enterprises Limited, the volume of engineered flooring produced by Hailin Yingtai was 250,840, 231,156 and 214,139 sq.m., respectively, the volume of engineered flooring sold by Hailin Yingtai was 144,858, 127,746 and 416,665 sq.m., respectively, and the operating loss before income tax of Asia Hero Enterprises Limited was approximately RMB3,686,000, RMB3,569,000 and RMB3,107,000, respectively. The increase in the volume of engineered flooring sold by Hailin Yingtai in 2010 was due to its disposal of inventory produced in the years ended December 31, 2008 and 2009. After completion of the disposal, our Group engaged, on an arm's length basis, Hailin Yingtai as our authorized manufacturer for three-layered engineered flooring products. We charge Hailin Yingtai trademark and distribution network usage fees.

TRANSFER OF INTERESTS IN FREEWINGS TO TEAM ONE INVESTMENTS AND TRADER WORLD

Team One Investments

On May 7, 2011, Mr. Se Hok Pan transferred his shareholding interest of approximately 44.92% of the shares of Freewings to Team One Investments. Team One Investments is an investment holding company incorporated under the laws of BVI on March 1, 2011, the entire issued share capital of which is held by Mr. Se Hok Pan.

Trader World

On May 7, 2011, Ms. Un Son I transferred her shareholding interest of approximately 39.81% of the shares of Freewings to Trader World. Trader World is an investment holding company incorporated under the laws of BVI on March 1, 2011, the entire issued share capital of which is held by Ms. Un Son I.

INVESTMENT BY MS FLOORING, IFC AND HEADLAND HAV3

MS Flooring and IFC's Investment in Our Company

On May 8, 2008, pursuant to a convertible note purchase agreement dated May 8, 2008 among our Company, MS Flooring, the Controlling Shareholders other than Mr. She Jian Bin, Team One Investments and Trader World we issued to MS Flooring the MS Convertible Notes at the consideration of US$50 million and one Special Share at the nominal consideration of US$0.001. On May 29, 2008, pursuant to a convertible note purchase agreement dated May 21, 2008 among our Company, IFC, the Controlling Shareholders other than Mr. She Jian Bin, Team One Investments and Trader World we issued to IFC the IFC Convertible Notes at the consideration of US$20 million. MS Flooring and IFC had made an investment in our Company after taking into consideration various factors, including but not limited to our Group's brand, products, management team and distribution network. The consideration paid by MS Flooring and IFC was determined with reference to various factors, including the financial performance of our Group in 2007 as well as the future earning capability of our Group. We used the proceeds of the Convertible Notes primarily to fund the expansion of our Group.

In connection with the issue of the MS Convertible Notes, we entered into a shareholders and noteholders agreement dated May 8, 2008 with MS Flooring, the Controlling Shareholders other than Mr. She Jian Bin, Team One Investments and Trader World and in connection with the issue of the IFC Convertible Notes, we entered into the Shareholders' Agreement dated May 21, 2008 (which amended and restated the shareholders and noteholders agreement dated May 8, 2008). In March 2009, Mr. Se transferred 8.69% of the shares in Freewings to Mr. She Jian Bin at nil consideration as a gift to his family member. As Mr. She Jian Bin became a shareholder of Freewings, pursuant to a supplemental agreement dated April 21, 2009 among our Company, MS Flooring, IFC and the Controlling Shareholders other than Team One Investments and Trader World, Mr. She Jian Bin agreed to be bound by the Shareholders' Agreement as a Controlling Shareholder. Team One Investments and Trader World agreed to be bound by the Shareholders' Agreement, each as a Controlling Shareholder, with effect from the date on which they became shareholders of Freewings.

The Special Share gives MS Flooring no rights other than the right to vote at shareholders meetings of our Company with respect to certain specified reserved matters set out in the Shareholders' Agreement. MS Flooring and IFC were also given customary minority shareholders' rights under the Shareholders' Agreement, such as pre-emptive rights, anti-dilution adjustments, tag-along rights, restrictions on transfer, reserved matters, information rights and minority protection rights. In addition, our Company and the Controlling Shareholders provide certain indemnities to MS Flooring and IFC, including in relation to undisclosed liabilities of our Group, liability of our Directors who are appointed by MS Flooring and IFC, and tax and any other losses suffered by MS Flooring or IFC in their capacity as our Shareholders prior to ●, and the obligations of our Company under the Shareholders' Agreement and related documents are guaranteed by the Controlling Shareholders. The rights granted to MS Flooring and IFC under the Shareholders' Agreement will be terminated upon ● except for:

(i) in the case of MS Flooring and IFC:

- certain indemnities provided by our Company and the Controlling Shareholders in relation to undisclosed liabilities of our Group, liability of our Directors who are appointed by MS Flooring and IFC, and tax and any other losses suffered by MS Flooring or IFC in their capacity as our Shareholders prior to ●, and certain guarantees provided by the Controlling Shareholders in relation to the Company's obligations which arise or accrue prior to ●;
- certain transfer restrictions applicable to Freewings set out in the paragraph headed "Certain Transfer Restrictions" below; and
- certain confidentiality obligations owed by our Company, MS Flooring, IFC and the Controlling Shareholders to each other, and

(ii) in the case of IFC only:

- information rights in relation to criminal and other material litigation, investigation and other proceedings;
- access to our Group's premises and other information (where such information is not non-public price sensitive information) including books and records of any member of our Group, information relating to any sanctionable practice (such as fraudulent or corrupt practice) or prohibited activities (such as use of child labor, production or trade in weapons, radioactive materials, alcohol and tobacco) of our Group; and

- access to employees, agents, contractors and subcontractors of any member of our Group.

The two non-executive Directors of our Company who are representatives appointed by MS Flooring pursuant to the Shareholders' Agreement will be subject to retirement by rotation according to our Articles. In addition, a share pledge over certain Shares was created by Freewings in favor of MS Flooring and IFC to secure certain obligations. Such share pledge will also be terminated upon ●.

IFC, a member of the World Bank Group, is an international development institution. IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments. The information rights and access rights which continue to be available to IFC after ● help IFC safeguard its mission as an international development institution and are measures to help IFC ensure the compliance by our Company with the obligations in relation to environmental standards, insurance and anti-corruption set out below. Such information rights and access rights do not give any preferential treatment to IFC in respect of non-public price sensitive information. Save as set out above, no special rights granted to MS Flooring and IFC under the Shareholders' Agreement will subsist after ●.

In order for IFC to safeguard its mission as an international development institution, our Company has also agreed with IFC that it will comply with certain obligations, namely (i) obligations to meet certain environmental standards, (ii) obligations to maintain insurance over the Group; and (iii) obligations to satisfy certain anti-corruption guidelines. These obligations serve to enhance the corporate governance of our Group, and further details are set out below:

(i) Environmental and social policy

Our Company will implement environmental and social monitoring systems acceptable to IFC, and comply with standards set out in IFC's environmental and social policies. These environmental and social policies are applied by IFC as a means of putting into practice its commitment to social and environmental sustainability. Such environmental and social policies define responsibilities or approaches for managing business operations and investment projects and include certain performance standards. These performance standards cover the following areas: social and environmental assessment and management system, labour and working conditions, pollution prevention and abatement, community health, safety and security, land acquisition and involuntary resettlement, biodiversity conservation and sustainable natural resource management, indigenous peoples and cultural heritage.

Apart from the above environmental policies we have agreed with IFC that we will comply with, we are also subject to environmental regulations of the PRC and other relevant jurisdictions where we conduct our business. See "Business — Environmental and Safety Matters — Environmental Compliance".

(ii) Insurance

Our Company will insure and keep insured the assets and businesses of our Company's operating subsidiaries which can be insured.

(iii) Anti-corruption

Our Company will not undertake certain sanctionable practices (including actions undertaken for the purpose of bid rigging or certain other threatened or actual illegal actions) or make certain prohibited payments (including kickbacks and bribery to violate or derogate a duty owed by the recipient in order to obtain an undue advantage or to avoid an obligation, and facilitation payments).

On June 30, 2010, both MS Flooring and IFC elected to convert all of their Convertible Notes into Preferred Shares and, as a result of certain financial performance targets under the Shareholders' Agreement not being met in respect of the consolidated net income of our Group for the years ended December 31, 2008 and December 31, 2009, pursuant to the terms of the Shareholders' Agreement, Freewings transferred 298,212 Shares to MS Flooring and 119,285 Shares to IFC at a consideration of US$1 in each case. Prior to ●, MS Flooring and IFC will convert all of the outstanding Preferred Shares into 29,999,999 Shares and 12,000,000 Shares, respectively. As a result of certain financial performance targets under the Shareholders' Agreement being met in respect of the consolidated net income of our Group for the year ended December 31, 2010, MS Flooring and IFC will, prior to ●, transfer 3,298,212 Shares and 1,319,285 Shares, respectively to Freewings, at a consideration of US$1 in each case, so that, immediately prior to ● and the Capitalization Issue, MS Flooring and IFC will hold 26,999,999 Shares and 10,800,000 Shares, respectively. Upon conversion of the outstanding Preferred Shares in full, in accordance with their terms, our Company will redeem and cancel the Special Share for a redemption price equal to the par value of the Special Share, being US$0.001.

Loans from IFC

On May 21, 2008, IFC also entered into separate loan agreements with Zhongshan Nature, Jiangxi Nature, Kunshan Nature, Zhangjiagang Nature, Guangdong Yingran and Hailin Yingtai. Following a restructure of the loans in September 2009, the loans to Zhangjiagang Nature and Guangdong Yingran were repaid, and as of the Latest Practicable Date, amounts of US$2.4 million, US$5.2 million and US$2.8 million were outstanding from Zhongshan Nature, Jiangxi Nature and Kunshan Nature, respectively. The loans are to be repaid in equal six monthly installments between June 15, 2010 and December 15, 2014. The loans are secured by collateral granted to IFC by certain members of our Group, are guaranteed by our Company, and entitle IFC to certain rights over our Group, including matters such as covenants by the borrowers to allow access by IFC to the premises of the respective borrowers, to comply with certain safety and environmental standards set by IFC, to seek IFC's consent prior to any payment of dividends, restructuring of our Group, or entry into new loans, and also to provide detailed financial and operational reporting updates to IFC within certain periods prescribed in the loan agreements.

Headland HAV3

Pursuant to the terms of the Headland HAV3 SPA, Freewings transferred 2,307,827 Shares to Headland HAV3 on September 30, 2010 at the consideration of RMB80 million. Headland HAV3 had made an investment in our Company after taking into consideration various factors, including but not limited to our Group's brand, products, management team and distribution network. The consideration paid by Headland HAV3 was determined after arm's length negotiation between Headland HAV3 and Freewings and was based on Headland HAV3's internal investment appraisal after taking into account its estimated profitability of the Group.

In the event that the consolidated net income of our Group for the year ended December 31, 2010 (adjusted to exclude certain agreed items of income and expense) falls below a certain performance benchmark, Freewings is required to pay to Headland HAV3 an amount equal to 0.19 times the shortfall. Such amount has been determined at RMB2,999,232, and will be paid by Freewings to Headland HAV3 after ●.

In the event that the pre-money valuation of our Company at the time of ●, calculated based on ●, falls below Headland HAV3's implied valuation of our Company at the time of its investment, Freewings is required to pay to Headland HAV3 an amount equal to the difference between, on the one hand, RMB80 million, and, on the other hand, 2% of the difference between the market capitalization of our Shares (calculated based on ●) and ●. Such amount, if any, reflects the difference between Headland HAV3's implied valuation of our Company at the time of its investment, and the pre-money valuation of our Company at the time of ●.

After the Capitalization Issue, Headland HAV3 will hold 23,078,270 Shares.

The Headland HAV3 SPA entitles Headland HAV3 to certain minority shareholders' rights and information rights, which shall terminate upon completion of ● except for certain transfer restrictions applicable to Freewings set out in the paragraph headed "Certain Transfer Restrictions" below.

Certain Transfer Restrictions

From ● until 6 months following ●, Freewings cannot transfer any equity securities of our Company owned by it. Thereafter, Freewings is permitted to transfer:

- from and after 6 months following ●, and so long as any of MS Flooring, IFC and Headland HAV3 remains a shareholder of our Company, an aggregate of up to 5% of the equity securities of our Company owned by it as of the date of ●;
- from and after 18 months following ●, and so long as any of MS Flooring and IFC remains a shareholder of our Company, an aggregate of up to (i) 20% of the equity securities of our Company; or (ii) the amount of Shares and other equity securities of our Company sold or otherwise disposed of by MS Flooring and IFC following ●, whichever is lower; and
- from and after 30 months following ●, all of the remaining equity securities of our Company owned by it.

DESCRIPTION OF OUR INVESTORS

Immediately after ● and the Capitalization Issue, MS Flooring will be a substantial shareholder of our Company, but will not be connected to any of our Controlling Shareholders, and neither IFC nor Headland HAV3 will be connected to our Group or our Controlling Shareholders.

MS Flooring is an exempted company incorporated in the Cayman Islands with limited liability and is wholly-owned by MSPEA III Cayman. MSPEA III Cayman is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is MSPEA III, a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPEA III is MSPEA III GP, the managing member of which is MSPEA III Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is an indirect wholly-owned subsidiary of Morgan Stanley.

IFC is a member of the World Bank Group and is established by its Articles of Agreement among over 180 member countries, including the PRC.

Headland HAV3 is a wholly-owned subsidiary of The Headland Asian Ventures Fund 3 Limited. The Headland Asian Ventures Fund 3 Limited is managed by Headland Venture Investment Limited. Headland Venture Investment Limited is advised by Headland Venture Partners Limited. Both Headland Venture Investment Limited and Headland Venture Partners Limited are wholly-owned subsidiaries of Headland Capital Partners Limited. 80.1% of Headland Capital Partners Limited is owned by Headland Capital Partners Holdings Limited, which is in turn wholly-owned by the management who are also employees of Headland Capital Partners Limited and its wholly-owned subsidiaries, and 19.9% is owned by The Hongkong and Shanghai Banking Corporation Limited. Headland Capital Partners Limited was formerly known as HSBC Private Equity (Asia) Limited and was a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited. Headland Venture Partners Limited was formerly known as HSBC Asian Ventures Advisers Limited and The Headland Asian Ventures Fund 3 Limited was formerly known as The HSBC Asian Ventures Fund 3 Limited.

Set out below is a table summarizing the interests held by our Shareholders in our Company and the changes to such interests during the Track Record Period:

		Number of Securities Held as at			
Name of Shareholder	**Class of Securities**	**December 31, 2008**	**December 31, 2009**	**December 31, 2010**	**Immediately Prior to Completion of ● and the Capitalization Issue[(4)]**
Freewings	Shares	70,000,000	70,000,000	67,274,676[(1)(3)]	71,892,173
MS Flooring	MS Convertible Notes	US$50,000,000	US$50,000,000	—	—
	Preferred Shares	—	—	29,999,999[(2)]	—
	Shares	—	—	298,212[(1)]	26,999,999
	Special Share	1	1	1	—
IFC	IFC Convertible Notes	US$20,000,000	US$20,000,000	—	—
	Preferred Shares	—	—	12,000,000[(2)]	—
	Shares	—	—	119,2851[(1)]	10,800,000
Headland HAV3	Shares	—	—	2,307,827[(3)]	2,307,827

Notes:

(1) On June 30, 2010, as a result of certain financial performance targets under the Shareholders' Agreement not being met in respect of the consolidated net income of our Group for the years ended December 31, 2008 and December 31, 2009, pursuant to the terms of the Shareholders' Agreement, Freewings transferred 298,212 Shares to MS Flooring and 119,285 Shares to IFC.

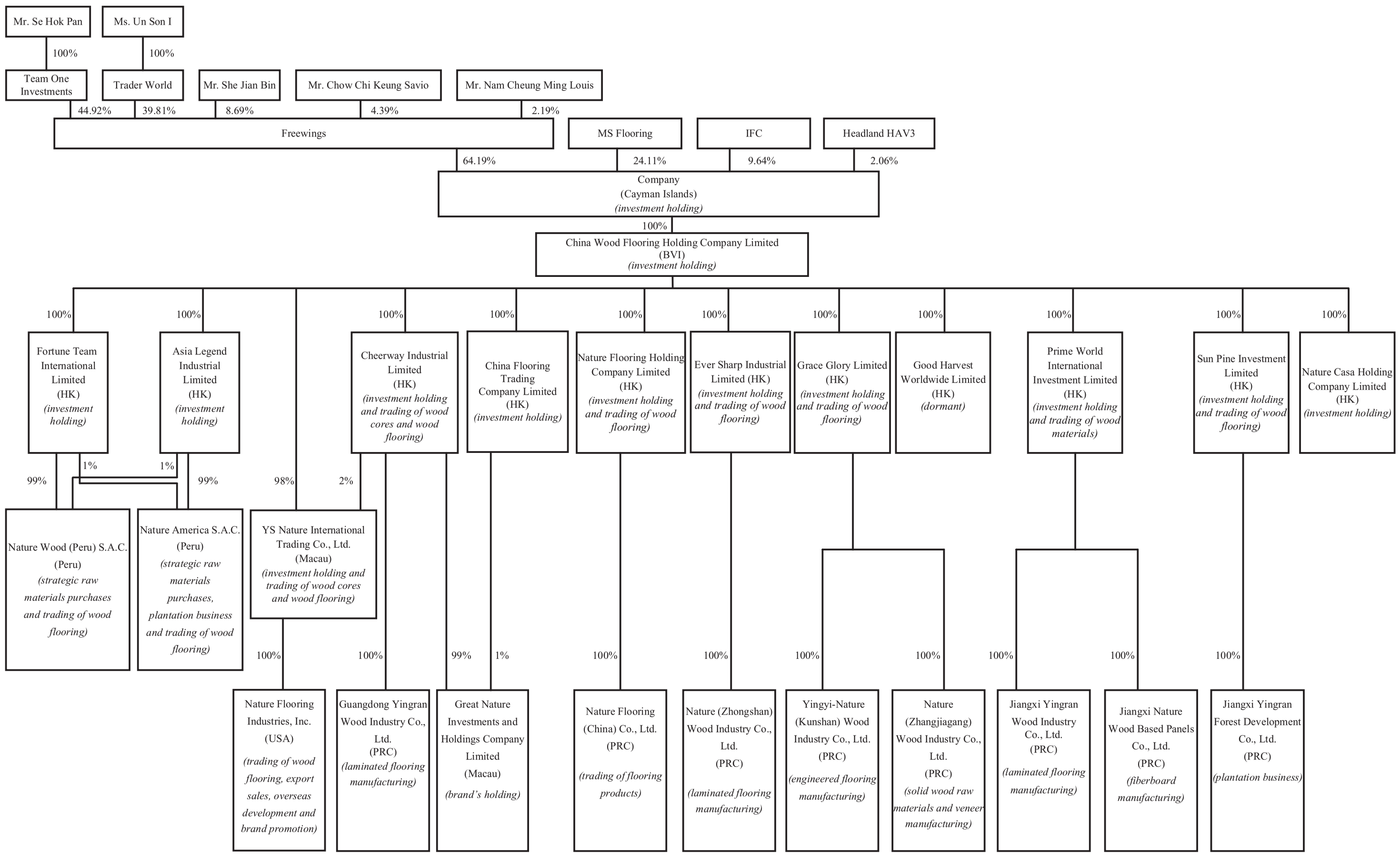
(2) On June 30, 2010, both MS Flooring and IFC elected to convert all of their Convertible Notes into Preferred Shares.

(3) On September 30, 2010, Freewings transferred 2,307,827 Shares to Headland HAV3.

(4) Prior to completion of ● and the Capitalization Issue, (i) MS Flooring and IFC will convert all of the outstanding Preferred Shares into 29,999,999 Shares and 12,000,000 Shares, respectively, and the Special Share will be redeemed and cancelled; and (ii) as a result of certain financial performance targets under the Shareholders' Agreement being met in respect of the consolidated net income of our Group for the year ended December 31, 2010, MS Flooring and IFC will transfer 3,298,212 Shares and 1,319,285 Shares, respectively to Freewings.

OUR SHAREHOLDING AND CORPORATE STRUCTURE IMMEDIATELY BEFORE ●

The following chart sets out our shareholding and corporate structure immediately prior to ●, assuming all outstanding Preferred Shares have been converted into Shares on a one for one basis, the Special Share has been redeemed and cancelled and the Share Adjustments have been completed, and without taking into account any Shares which may be issued under the Previous Share Option Scheme:



OVERVIEW

Products and Market Share

We are the largest wood flooring brand in China in terms of market share[1] by retail sales value of branded wood flooring products. According to Frost & Sullivan, our "Nature" branded products accounted for 6.5% market share in terms of China's total retail sales value of branded wood flooring products in 2009. Our branded products are manufactured through a combination of our own manufacturing facilities 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 the Frost & Sullivan, in 2009, our branded products ranked second in laminated flooring with a 7.2% market share, first in multi-layered engineered flooring with a 5.3% market share and first in solid wood flooring with a 7.4% market share, in terms of retail sales value in China. We were the only company to achieve a top two market share position across the three primary wood flooring product categories in China in 2009. Leveraging our strong brand, extensive distribution network, comprehensive product portfolio and flexible manufacturing model, we grew rapidly and gained market share in China during the Track Record Period.

Product Manufacturing

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

Notes:

(1) The market share data includes retail sales value of branded products manufactured at our own factories and by authorized manufacturers from whom we receive trademark and distribution network usage fees. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own factories accounted for 60.5%, 66.7% and 67.3% of the total Wholesale Volume of our branded products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 37.7%, 31.4% and 30.3%, respectively.

(2) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and greater than 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.

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

Set forth below is the Wholesale Volume[1] of each product category of our branded products for the periods indicated:

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

Notes:

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

(2) Represents the percentage of the total Wholesale Volume of our branded products manufactured at our own factories and by authorized manufacturers combined.

(3) Flooring products are sold by square meters. There is no uniform size for the finished product of each product category as each product category may vary in length, width and height.

(4) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and greater than a majority of branded engineered flooring were manufactured by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1%, respectively.

Our Brands

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

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

Distribution Network

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

Branding Strategy

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

Forestry Management and Harvesting

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

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

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

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

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

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

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

Trading Business

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

Financial Performance

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

STRENGTHS

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

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

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

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

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

Industry-leading brand provides a significant competitive advantage

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

- one of the first flooring brands recognized as "China's Top Brand" (中國名牌產品), by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in 2004 and again in 2007;

- receiving the "Asia Top 500 Brands Award" (亞洲品牌500強) by the Expert Committee Presidium of Asia Brand Assessment System in 2008;

- the only flooring company in China and one of five companies globally (the other four are Coca-Cola, Canon, SAIC Group (上汽集團) and Ogilvy & Mather) to receive a "Merit Conservation Supporter" recognition by the World Wildlife Fund (WWF) in 2008;

- the first wood flooring company in China to receive the "Zero Carbon Certificate" (零碳證書) from the Shanghai Zero-Carbon Information Technology Center in 2010; and

- receiving the "Chinese Brand of the Year 2010 and Ranking No. 1 in the Wood Flooring Category" (中國品牌年度大獎 No.1 (木地板行業)) from the World Brand Laboratory.

We have successfully positioned our brand with consumers to represent high product quality and product safety as well as health and environmental awareness, which also reflect our core values and form the focus of our brand management and product strategy. According to a Frost & Sullivan survey conducted in December 2010, brand is the most important consideration for China's retail consumers in purchasing wood flooring products. As consumers in China become more sophisticated, placing more importance on product quality and safety, customer service, and the environmental impact of the products they purchase, we believe that our brand recognition and positioning among consumers will continue to differentiate us from our competitors.

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

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

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

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

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

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

Comprehensive branded product portfolio supported by strong product development capabilities

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

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

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

Effective use of authorized manufacturers enhances production flexibility and capital efficiency

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

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

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

STRATEGIES

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

Continue to invest in and strengthen our brand

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

- continue to utilize marketing and brand promotion campaigns. For example, we plan to continue to partner with well-known actors and advertise in China's mainstream television broadcasts, such as China Central Television (CCTV);

- continue to strengthen customer loyalty by enhancing our store experience through increased distributor training and oversight, and by offering a wide range of products and superior after-sale services;

- work with our distributors to open approximately 25 additional flagship stores in 2011 in provincial capital cities and other cities with strong economic growth potential, such as Taizhou of Jiangsu Province and Yuyao of Zhejiang Province. These flagship stores, which are owned and operated by our distributors and are generally bigger than other Retail Stores, will provide customers with a comprehensive selection of our branded products, and are intended to serve as a platform for us to display and demonstrate our newly developed products; and

- continue to allocate more resources toward marketing activities designed to promote our environmentally friendly image and which reflect our company values. These activities include placing advertisements, conducting brand ambassador activities and environmental campaigns, as well as supporting various environmental initiatives and participating in conservation and planting projects.

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

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

- enhance our distribution network's presence and performance in our existing markets by increasing the number of the Retails Stores and assisting our distributors in increasing the sales through the Retails Stores by various means, including helping our distributors to adjust product offerings in response to local market conditions, strengthening promotional campaigns, such as the "Champion Alliance" (冠軍聯盟) program, and enhancing our customers' in-store experience;

- expand our distribution network to new markets in China. In particular, we plan to expand the Retails Stores in county-level cities and towns in China, where we plan to market our laminated flooring products which we believe are becoming increasingly popular in these areas;

- reinforce our close and stable relationships with our distributors through various initiatives, including introducing new training programs; and

- explore new distribution channels, such as exploring overseas markets and online sales through our Company's website and other influential websites in China. In this regard, we plan to establish an e-business center in our headquarters to take charge of our proposed online sales. In addition, we plan to engage third-party consultants to design and organize related advertising campaigns.

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

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

- further strengthen our product development capabilities to satisfy the evolving and diverse preferences and demands of consumers in China. To this end, we plan to expand our research and development team by recruiting additional experts with substantial wood flooring industry experience and knowledge; and

- focus on developing more laminated flooring products, while maintaining our strength in branded solid wood flooring and engineered flooring products.

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

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

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

2011, upon receipt of relevant approvals and permits (which have already been obtained in respect of our forests in Peru);

- continue to expand our network of authorized manufacturers to manufacture an increasing proportion of our branded products across our portfolio, such as for laminated flooring while at the same time selectively expanding and upgrading certain of our own factories in order to maintain a strategic mix of manufacturing capacity; and

- upgrade our information system by implementing a third-party enterprise resource planning system to enhance the exchange of information both internally and with our distributors and suppliers.

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

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

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

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

- continue to acquire strategic upstream forest assets, especially those that produce high-quality timber, in order to provide a source of high-quality timber for the manufacturing of our branded products; and

- acquire products or brands that are complementary to our existing product portfolio and business.

OUR BRANDS

Our brands play a vital role in our success. According to the Frost & Sullivan Report, brand is the most important consideration for China's retail consumers in purchasing wood flooring products. Therefore, a successful wood flooring brand drives end market consumer demand. It is also a key factor to retain and attract distributors in China's fragmented and competitive wood flooring industry. In addition, a successful brand is important for us to retain and attract authorized manufacturers from whom we charge trademark and distribution network usage fees. See "— Manufacturing — Authorized Manufacturing Network."

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

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

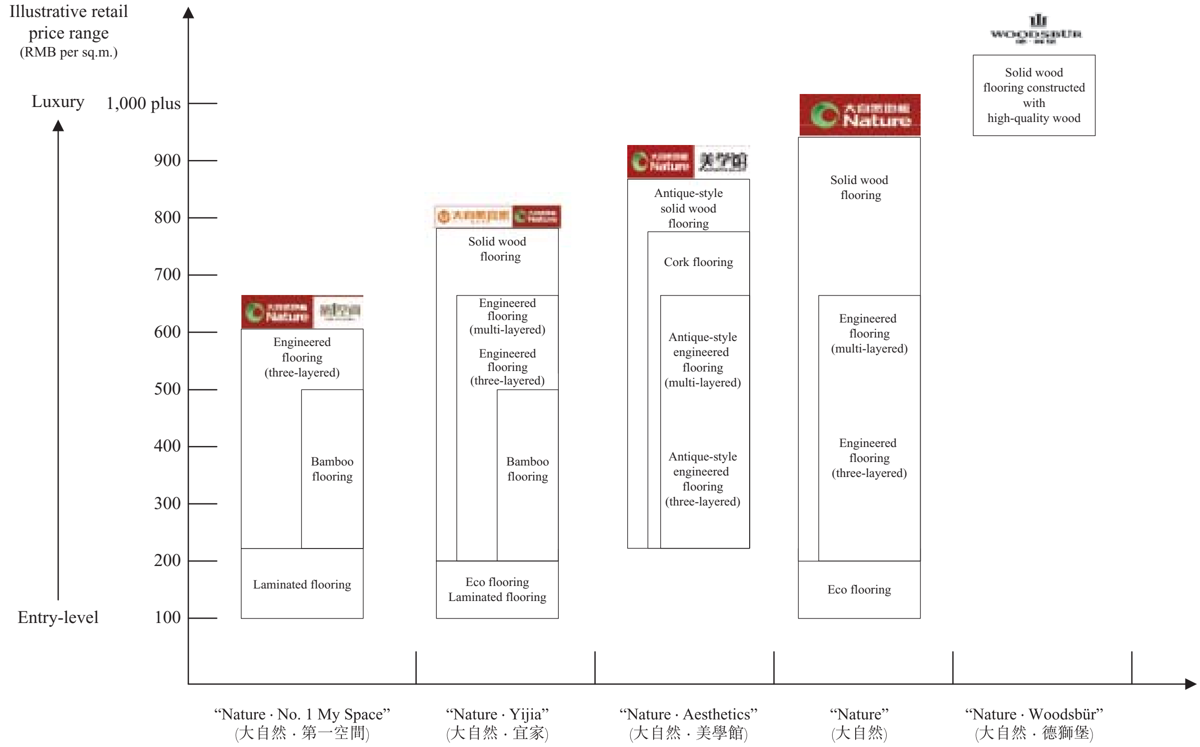
- "*Nature · Woodsbür*" (大自然 · 德獅堡), formerly known as Woodsbür (德獅堡), is our high-end sub-brand established in 2007, featuring solid wood flooring products manufactured by authorized manufacturers with high-quality wood from around the world. Our market positioning for this brand is geared towards affluent customers including those looking for investment pieces. As of December 31, 2010, over ten product SKUs of solid wood flooring under this sub-brand were offered;

- "*Nature · No. 1 My Space*" (大自然 · 第一空間) was established in 2007, inspired by increasing consumer preference for modern simplicity and fashion. Our market positioning for this brand is geared towards entry-level customers and customers who have lower budgets. As of December 31, 2010, over 270 product SKUs of laminated flooring, engineered flooring and bamboo flooring under this sub-brand were offered;

- "*Nature · Aesthetics*" (大自然 · 美學館) was established in 2008, featuring creative and antique-style products focused on artistic perspective and core aesthetic value. Our market positioning for this brand is geared towards customers with more personal and individual tastes in flooring. As of December 31, 2010, over 270 product SKUs of solid wood flooring, engineered flooring and cork flooring under this sub-brand were offered; and

- "*Nature · Yijia*" (大自然 · 宜家) was established primarily in line with the development of our non-traditional sales channels such as home furnishing supermarkets in 2007. Our market positioning for this brand is geared towards young customers and customers of home furnishing supermarkets. As of December 31, 2010, over 75 product SKUs of solid wood flooring, engineered flooring, laminated flooring and bamboo flooring under this sub-brand were offered.

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



Note: Prices are for illustrative purposes only.

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

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

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

OUR BRANDED PRODUCTS

Our branded products consist both of products manufactured at our own factories and those manufactured by authorized manufacturers. Authorized manufacturers are independent third parties (other than two joint venture authorized manufacturers established in July 2010 to manufacture our branded laminated flooring products). Authorized manufacturers manufacture only our branded products and must sell these products exclusively to distributors in our distribution network directly, for which we charge trademark and distribution network usage fees. See "— Manufacturing — Authorized Manufacturing Network."

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

The following table sets forth, for the periods indicated, the Wholesale Volume of each product category of our branded products:

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

Notes:

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

(2) Represents the percentage of the total Wholesale Volume of our branded products manufactured at our own factories and by authorized manufacturers combined.

(3) Flooring products are sold by square meters. There is no uniform size for the finished product of each product category as each product category may vary in length, width and height.

(4) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and greater than a majority of branded engineered flooring were manufactured by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1%, respectively.

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

Laminated flooring manufactured at our own factories

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

Laminated floorings consist of multiple layers that include a moisture-proof foundation layer, a layer of composite fiberboard, a design layer with a high-resolution replication photo of wood or a variety of other motifs and a wear-resistant, laminated surface layer. Laminated flooring can be designed in a wide variety of styles and textures and its construction enables the product to also be resistant to humidity and temperature changes. The drawing below illustrates the structure of a laminated flooring:

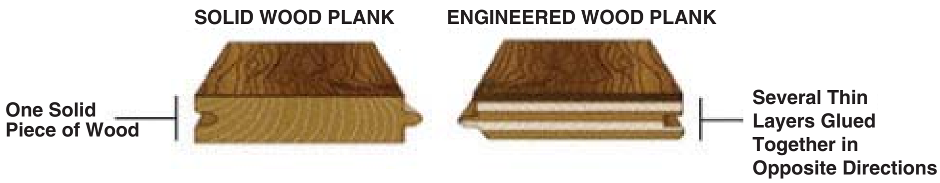
As composite fiberboard, which consists primarily of wood chips and glue, is less expensive than solid wood and plywood, laminated flooring is generally more affordable than either solid wood flooring or engineered flooring, and is priced at a lower price point and marketed towards mass market customers.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

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

Engineered flooring manufactured our own factories and by authorized manufacturers

During the Track Record Period, our branded engineered flooring products were manufactured through a combination of our own factories and authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1% of the total Wholesale Volume of our branded engineered flooring products, respectively. Authorized manufacturers are independent third parties (other than the two joint venture authorized manufacturers established in July 2010 to manufacture our branded laminated flooring products). Authorized manufacturers manufacture only our branded products and must sell these products exclusively to distributors in our distribution network, for which we charge trademark and distribution network usage fees and we do not generate revenue from sales of those branded products by authorized manufacturers. See "— Manufacturing — Authorized Manufacturing Network."

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



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

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

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

In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured our own factories and by authorized manufacturers in aggregate was approximately 1.9 million sq.m., 2.3 million sq.m. and 3.8 million sq.m., respectively, representing a CAGR of 41.4% from 2008 to 2010, which accounts for 14.8%, 13.6% and 16.7% of the total Wholesale Volume of our branded products. Among these, the Wholesale Volume of our branded engineered flooring products manufactured by authorized manufacturers was 1.1 million sq.m., 1.6 million sq.m. and 2.3 million sq.m., respectively, which accounts for 8.5%, 9.5% and 10.2% of the total Wholesale Volume of our branded products. The Wholesale Volume of our branded engineered flooring products manufactured at our own factories was 0.8 million sq.m., 0.7 million sq.m. and 1.5 million sq.m., respectively, which accounts for 6.3%, 4.1% and 6.5% of the total Wholesale Volume of our branded products.

Solid wood flooring manufactured by authorized manufacturers

During the Track Record Period, all of our branded solid wood flooring products were manufactured by authorized manufacturers. Authorized manufacturers are independent third parties (other than the two joint venture authorized manufacturers established in July 2010 to manufacture our branded laminated flooring products). Authorized manufacturers manufacture only our branded products and must sell these products exclusively to distributors in our distribution network directly, for which we charge trademark and distribution network usage fees and we do not generate revenue from sales of those branded products by authorized manufacturers. See "— Manufacturing — Authorized Manufacturing Network."

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

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

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

Other floorings

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

We conduct physical inspection of the bamboo and cork floorings manufactured by third-party manufacturers at their factories before these floorings are delivered to us. If defects are subsequently found in such products, we will return such products to the relevant third-party manufacturers for replacement or refund at their own costs. During the Track Record Period, none of the bamboo and cork floorings supplied by third-party manufacturers was returned to them. Our product liability insurance extends to the floorings manufactured by these third-party manufacturers.

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

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

PRODUCT DEVELOPMENT

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

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

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

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

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

SALES AND DISTRIBUTION

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

Our Nationwide Distribution Network

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

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

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

Geographic Distribution of the Retails Stores

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

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

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

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

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

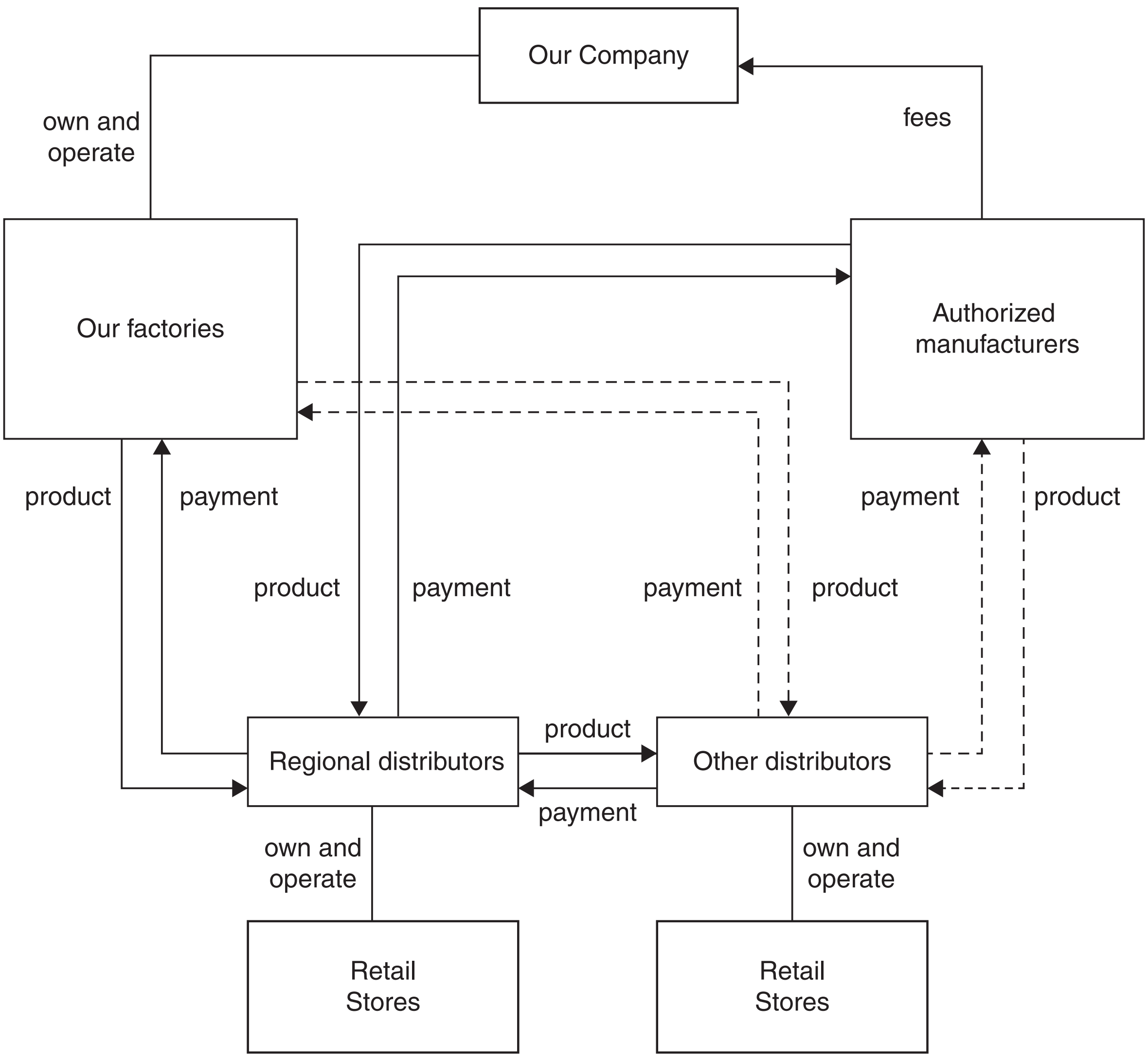
	As of December 31,		
	2008	**2009**	**2010**
Number of Retail Stores			
"Nature" (大自然)	726	1,167	1,853
"Nature・No. 1 My Space" (大自然・第一空間)	534	744	958
"Nature・Aesthetics" (大自然・美學館)	6	25	90
Total	**1,266**	**1,936**	**2,901**

Our Distributors

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

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

The chart below illustrates our relationship with our distributors:



Both regional distributors and other distributors are entitled to purchase our branded products from us or authorized manufacturers pursuant to the distribution agreement and/or the distributor certificate. Regional distributors purchased all of our branded products from us or authorized manufacturers during the Track Record Period, and are the top 60 distributors in terms of Wholesale Volume. Most of other distributors, however, purchased all of our branded products from regional distributors located in their close proximity during the Track Record Period to facilitate the logistical efficiency and reduce the shipping cost. Certain other distributors purchased a small portion of our branded products directly from us or authorized manufacturers during the Track Record Period due to the inventory shortage of the regional distributors from whom they sourced our branded products. In 2008, 2009 and 2010, the Wholesale Volume of our branded products we and authorized manufacturers sold to regional distributors accounted for approximately 90.8%, 89.6% and 90.5% of the Wholesale Volume of our branded products we and authorized manufacturers sold to all of our distributors. During the Track Record Period, we experienced a consistent increase in revenue as a result of growth in all our business segments. The increase in consumer demand for our branded flooring products reflected the overall growth of our business, the expansion of our distribution network and the enhancement of our brand recognition. The increase was not the result of an accumulation of inventory at our distributors' level. In view of their payment terms with us as well as our authorized manufacturers and our no refund or exchange of goods policy (except of defective or damaged goods), distributors who accumulate inventories will run their own risk of suffering cash flow problems or incurring losses due to inventory becoming obsolete. Furthermore, the Wholesale Volume of our branded products sold to our distributors reflects our overall business growth as the regular and relatively stable purchase requests we receive from our distributors reflects the sales of our distributors and their sales targets, which indicate that our distributors have maintained a healthy inventory turnover instead of accumulating stock.

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

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

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

Further, we require our distributors to undertake measures to protect our brand. Distributors are not allowed to use our brand for any purpose other than for distributing our products. They are required to promptly notify us upon becoming aware of any infringement of our trademark rights. In addition, distributors are required to make a security deposit, from which we are entitled to directly deduct our losses in connection with their breach of our policies, their failure to protect our brand, or any liability claims from customers. The amount of the security deposit we require from a particular distributor depends on the maturity of the market in which it operates, and generally ranges from RMB5,000 to RMB130,000. We require higher deposits from distributors operating in more mature markets, because the greater number of transactions and customers in those markets usually present greater risk for customer liability claims or breaches of our policies. We return the security deposit upon the conclusion or termination of our relationship with the distributors, so long as there are no outstanding liability claims.

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

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

Management of Our Distributors

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

When opening a new Retail Store, our distributors conduct research on the market potential of the proposed store site. Each new Retail Store must be approved by our sales department. In determining whether to approve the opening of a new Retail Store, we consider the store's location, its market opportunity and its estimated sales. Our sales department may also conduct independent research to confirm the market potential of certain proposed stores. Most of the Retails Stores are strategically located in prime retail areas with significant traffic flow.

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

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

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

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

MARKETING AND PROMOTIONS

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

- *Advertisement.* We hire third-party advertising consultants to design and organize advertising campaigns to convey our brand image and product information to a wide base of customers. We primarily focus on advertisements in China's mainstream television broadcasts, such as China Central Television (CCTV). Our advertisement featuring one of China's most respected actors, Mr. Daoming Chen (陳道明), and the slogan "I Love Nature, Global Premium Life" (我愛大自然，全球品味生活) is widely seen in China. Our advertisements are also placed in magazines, newspapers, on airport kiosks, outdoor billboards and China's popular web sites.

- *Sponsorship.* We sponsor public events to promote our brand. In 2008, we sponsored the Chinese National Cycling Team for the Olympic Games held in Beijing. In 2010, we organized the "Zero Carbon Home Design Competition" (零碳家居設計大賽) to advocate the idea of zero carbon life, which covered 11 cities of China and attracted thousands of young promising designers, and we also became the only designated flooring product provider for the Shanghai World Expo's London Zero Energy Development Case Pavilion. We have also sponsored television programs with CCTV, including the "Same Song: Shunde Stand" (同一首歌:走進順德) in 2007 and the "Little Creative Painter Competition" (創意小畫家比賽) in 2009.

- *Community service.* We actively participate in community service activities. In 2006, we launched the "China Green Map Project" (中國綠色版圖) campaign, in which we plant trees to help environment. Since the launch of this campaign, we have successively carried out tree planting activities, such as "Let's Plant a Tree for Yellow River" (我為黃河種棵樹), "Let's Plant a Tree for Yangzi River" (我為長江種棵樹) and "Let's Plant a Tree for Consumers" (我為消費者種棵樹), in Shanxi, Guangdong, Beijing, Shandong, Gansu and Guizhou, covering the basins of both the Yellow River and Yangzi River. In 2007, we launched the "Nature Green Cradle Project" (大自然綠色搖籃計劃) campaign, in which we worked with our distributors to establish scholarship funds in Beijing Forestry University, Northeast Forestry University, Central South University of Forestry & Technology, South China Agricultural University and Nanjing Forestry University to provide students with financial aid.

- *Brand promotion events.* We periodically organize sales promotion events. In 2010, we launched the "Nature Flooring Sunshine Charity Sales" (大自然地板陽光助學義賣) event. The profits from this event were donated to provide financial assistance for students from poor families. In addition, we conduct joint marketing activities. In April 2009, we launched the "Champion Alliance" (冠軍聯盟) promotional program with five other leading household products manufacturers in China. Alliance members jointly conduct brand promotion activities in different cities in China. Customers who purchase the products of two participating companies are eligible to receive a discount when purchasing products from other participating companies. In addition, in 2010, we collaborated with a major home appliances manufacturer in China to launch the "Green

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

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

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

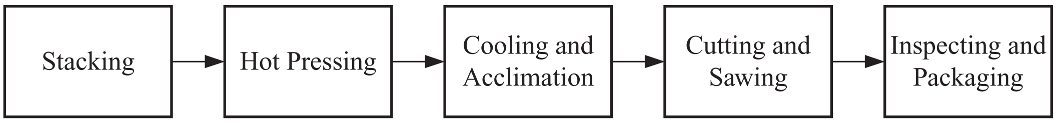
MANUFACTURING

Manufacturing Process

Laminated flooring

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

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



(1) Stacking

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

(2) Hot Pressing

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

(3) Cooling and Acclimation

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

(4) Cutting and Sawing

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

(5) Inspecting and Packaging

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

Engineered flooring

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

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

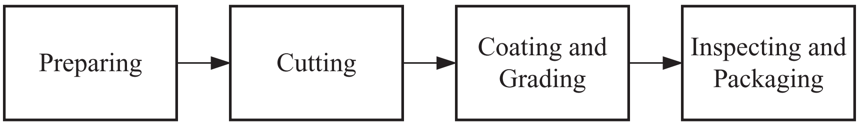
Similar to laminated flooring, the production of engineered flooring also involves pressing, cooling and acclimation, cutting, sawing and inspection and packaging. Two additional steps are involved:

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

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

Solid wood flooring

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



(1) Preparing

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

(2) Cutting

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

(3) Coating and Grading

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

(4) Inspecting and Packaging

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

Authorized Manufacturing Network

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

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

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

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

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

Notes:

(1) This authorized manufacturer used to manufacture engineered flooring in 2008.

(2) This company became our authorized manufacturer in December 2010.

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

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

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

Note:

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

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

Trademark Licensing and Distribution Network Usage Agreements

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

We also entered into distribution network usage agreements with each of our ten authorized manufacturers as of December 31, 2010, pursuant to which they agree to sell their products exclusively to the distributors in our distribution network, for which we charge a distribution network usage fee, which consists of a fixed fee calculated based on authorized manufacturers' committed annual production capacity and a variable fee which is based on authorized manufacturers' actual sales volume. During the Track Record Period, the fixed fee accounted for approximately 34% to 42% of the distribution network usage fees earned from authorized manufacturers and the variable fee accounted for the remaining approximately 58% to 66%. Pursuant to the agreement, the distribution network usage fee is calculated on a monthly basis and is generally payable 120 – 180 days thereafter. Pursuant to the agreement, we are responsible for the maintenance of our distribution network and the promotion of our brands. The distribution network usage agreement typically have a one-year term, renewable by mutual agreement. Because the trademark licensing and distribution network usage fees that we charge our authorized manufacturers are calculated based on either output or sales, such fees are not affected by changes in raw materials prices.

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

Supervision of Authorized Manufacturers

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

Production and Quality Control

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

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

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

Pricing and Sales

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

Monitoring of Production and Sales Volume

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

Joint Venture Authorized Manufacturers

As part of our strategy to expand network of authorized manufacturers to manufacture an increasing proportion of our branded products across our portfolio, in July 2010, we and Guangdong Weihua, an independent third party, established two joint venture companies, Liaoning Tai'an and Hubei Xiangfan, to manufacture laminated flooring. Pursuant to the articles of association of Liaoning Tai'an and Hubei Xiangfan, we hold 19% interest at capital contribution of RMB7.6 million and one out of seven board seats in each of the joint venture companies. The amount of our capital contribution was determined and based upon the expected capital needs of these two joint venture companies. We have no future capital commitment to the two joint venture companies by the end of 2011. Guangdong Weihua will be mainly responsible for supplying fiberboards for the joint venture companies while we will assist the joint venture companies with technical support and product distribution through our distribution networks. The profits of the joint venture companies will be shared and distributed according to the shareholding of the companies pursuant to the relevant PRC laws and regulations. Liaoning Tai'an and Hubei Xiangfan commenced operations in April 2011. This is our first time to cooperate with authorized manufacturers to manufacture laminated flooring products. We have made minority equity investment in these two joint venture companies because as a joint venture partner, we can more actively monitor the manufacturing and operation of two joint venture authorized manufacturers for better assurance of the quality of our branded products. We believe our minority equity investment in these two authorized manufacturers would strengthen our cooperation with them by aligning our interest, benefit from business strengths of Guangdong Weihua and take advantage of the fast growing laminated flooring market in China.

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

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

Manufacturing by Our Own Factories

Factories

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

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

Notes:
(1) Excluding the time required to source raw materials.
(2) Depending on whether the manufacturing process starts with processing the log or semi-finished products.

Quality Control

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

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

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

Inventory and Logistics

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

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

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

Raw Materials Supply

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

Internal Sourcing

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

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

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

External Supply

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

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

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

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

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

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

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

OUR FORESTS

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

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

Yunnan Forests

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

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

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

Pursuant to the relevant forest resources transfer agreements, we have obtained the forestry land use right, forestry tree ownership right and forestry tree use right for our Yunnan forests. Our such rights are valid for a period through the year 2060, 2077 and 2078 for approximately 1,105, 613 and 2,726 hectares of our Yunnan forests, respectively. With respect to the forestry land ownership right, all of the forestry land in China is either owned by the State or owned by collective organizations, and is not transferable.

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

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

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

Peru Forests

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

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

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

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

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

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

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

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

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

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

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

TRADING BUSINESS

Flooring Trading

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

Timber Trading

Through our wholly-owned subsidiaries located in Macau and Hong Kong, YS Nature International Trading Co., Ltd. and Cheerway Industrial Limited, we also engage in the timber trading business. We purchase timber from overseas wood dealers and sell the timber to a variety of clients in China, including authorized manufacturers and other wood products manufacturers. During the Track Record Period, we did not sell timber in the U.S. In 2008, 2009 and 2010, revenues derived from our timber trading business accounted for approximately 9.2%, 4.7% and 16.5% of our total revenues, respectively.

Largest Customers

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

Largest Raw Materials Suppliers

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

ENVIRONMENTAL AND SAFETY MATTERS

Environmental Compliance

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

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

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

Environmental Initiatives

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

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

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

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

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

Labor Safety Matters

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

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

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

COMPETITION

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

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

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

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

We have a sales network of over 2,900 retail stores across China by the end of 2010. We have enjoyed economies of scale in production, and is likely to have higher bargain power in purchase. We have strong sourcing ability in supplies from different countries and bargaining power due to the scale of operations and through bulk purchases. We have retained at least two suppliers for each principal raw material. We have not encountered material disruption to our business as a result of a shortage of raw materials. The production of floorings needed various raw materials. If there is an increase in raw material costs, we may consider shifting to use another supplementary raw material. In case there is no other replacement of raw material, we may pass the cost of raw materials, to the extent possible, to our customers. According to Frost & Sullivan consumer survey, customers are willing to pay a premium for branded products and quality products. We believe that even if we pass on certain cost of raw materials to our customers, our consumers are still willing to pay more due to good brand and quality of our products. Frost & Sullivan's consumer survey also shows that the highest percentage of participants in the survey named our brand when asked which wood flooring brand first came to mind.

According to the Frost & Sullivan Report, in 2009, we had the largest market share of 6.5% in terms of annual retail sales value of our branded products, while our competitors "Power Dekor" (聖象), "Sunyard" (世友), "Ark Floors" (安信) and "Vohringer" (菲林格爾) had a market share of 5.6%, 2.3%, 2.3% and 1.9%, respectively. In 2009, the market share of our competitors together with us (in terms of annual retail sales value of branded products) contributed 19.5%, 17.3% and 31.3%, of the solid wood flooring segment, multi-layered engineered flooring segment and laminated flooring segment, respectively. According to the Frost & Sullivan Report, during the forecast period, the wood flooring industry is expected to continue consolidating, and established market leaders are positioned to gain additional market share by leveraging their well-recognized brands, extensive distribution network, broad product offerings and ability to provide more reliable after-sales service as compared to smaller industry players. See "Industry Overview."

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

- through partnering with authorized manufacturers to manufacture all of our branded solid wood flooring and a portion of our branded engineered flooring, we are able to reduce our exposure to inventory backlog and price fluctuations in raw materials and finished products, which are borne by our authorized manufacturers;

- we strive to minimize excess levels of raw materials and finished goods in our inventory while maintaining our ability to supply the demands of our distributors and customers. In this regard, we have maintained a certain level of inventories of finished products, as well as procure raw materials according to a production plan based on our estimate of distributor demand; and

- we have taken upstream integration to wood and timber resources. To secure a stable supply of high quality timber and also to reduce the impact of timber price volatility to our authorized manufacturers in connection with their manufacturing of solid wood flooring, in 2009 we began to selectively acquire strategic upstream forest assets, in Yunnan Province, China and Loreto Province, Peru.

INSURANCE

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

INTELLECTUAL PROPERTIES

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

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

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

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

PROPERTIES

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

Owned Properties

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

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

Properties under Construction

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

Leased Properties

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

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

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

Properties Occupied by us in Peru

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

LITIGATION AND COMPLIANCE

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

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

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

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Immediately following completion of ● and the Capitalization Issue, Freewings will own approximately ●% (assuming ● and the options granted under the Previous Share Option Scheme are not exercised) of our outstanding issued share capital. Freewings is an investment holding company incorporated under the laws of BVI on April 1, 2008. The issued share capital of Freewings is owned as to 44.92% by Team One Investments, 39.81% by Trader World, 8.69% by Mr. She Jian Bin, 4.39% by Mr. Chow Chi Keung Savio and 2.19% by Mr. Nam Cheung Ming Louis.

Team One Investments is an investment holding company incorporated under the laws of BVI on March 1, 2011, the entire issued share capital of which is held by Mr. Se Hok Pan. Trader World is an investment holding company incorporated under the laws of BVI on March 1, 2011, the entire issued share capital of which is held by Ms. Un Son I.

Immediately following completion of ● and the Capitalization Issue, the Ultimate Controlling Shareholders, comprising Mr. Se Hok Pan, Ms. Un Son I, Mr. She Jian Bin, Mr. Chow Chi Keung Savio, Mr. Nam Cheung Ming Louis, Team One Investments and Trader World, through their interest in Freewings, will control more than 30% of our issued share capital.

None of our Controlling Shareholders carries on or is otherwise interested in any business which competes, or is likely to compete, either directly or indirectly, with our business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently from our Controlling Shareholders and their respective associates after ●:

Management Independence

Our Board consists of ten Directors, comprising four executive Directors, two non-executive Directors and four independent non-executive Directors. All of our executive Directors, namely Mr. Se Hok Pan, Ms. Un Son I, Mr. She Jian Bin and Mr. Chow Chi Keung Savio, are also directors of Freewings. Freewings is an investment holding company whose principal asset is its shareholding in our Company. The majority of our Board members do not hold positions at Freewings.

Each of our Directors is aware of his or her fiduciary duties as a director of our Company which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted towards the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently. None of the members of our senior management team holds any board or other executive position in Freewings.

Having considered the above, our Directors are of the view that the Company is capable of managing its business independently from the Controlling Shareholders after ●.

Operational Independence

Our organizational structure comprises individual departments, each with a specific area of responsibility. We have also established various internal control procedures to facilitate the effective operation of our business. Other than the transaction described in the paragraph headed "Continuing Connected Transaction" below, our Group has not entered into any other transactions with our connected persons and their associates which will continue after ●.

We have independent sources of raw materials, and also independent authorized manufacturers and distributors.

Our Directors are of the view that our operational independence will not be affected by the continuing connected transaction, which is described under the heading "Continuing Connected Transaction" below, as the size of the continuing connected transaction is insignificant.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. We also have our own treasury function and independent access to third party financing. Our Directors confirm that all financial assistance, including amounts due to, loans or guarantees to loans provided by the Controlling Shareholders and its associates to our Group were or will be settled in full or released before ●. We believe we are capable of obtaining financing from independent third parties, if necessary, without reliance on our Controlling Shareholders. Therefore, our Group is financially independent from our Controlling Shareholders.

CONTINUING CONNECTED TRANSACTION

We have entered into a tenancy agreement with M & M Real Estate Investment Company Limited, a company owned by Mr. Se Hok Pan and Ms. Un Son I, who will become connected persons of our Company. Such transaction will, upon completion of ●, constitute an exempt continuing connected transaction of our Company and will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements.

Rental of office premises in Macau from M & M Real Estate Investment Company Limited, a company wholly-owned by Mr. Se Hok Pan and Ms. Un Son I

On January 1, 2011, we entered into a tenancy agreement with M & M Real Estate Investment Company Limited, a company owned by Mr. Se Hok Pan and Ms. Un Son I, pursuant to which we agreed to lease the premises located at Alameda Dr. Carlos D'Assumpcao, No. 249, 13 Andar, L&M13 Edif., China Civic Plaza, Macau (澳門新口岸宋玉生廣場中土大廈13樓L及M座) (the "Macau Property") for use as an office at a monthly rental of HK$26,516. The gross floor area of the Macau Property is 3,788 sq. feet. The tenancy agreement is for a term of three years commencing on January 1, 2011 and expiring on December 31, 2013. M & M Real Estate Investment Company Limited owns the Macau Property.

Prior to the entering into of the tenancy agreement, we have been occupying the Macau Property since 2008 although no rent has been paid to M & M Real Estate Investment Company Limited. The Directors are of the view that it is in the interests of the Group in terms of cost, time and stability to continue using the Macau Property as an office instead of finding and relocating to an alternative property, although alternative properties will be available if necessary.

For each of the three years ending December 31, 2011, 2012 and 2013, the annual rental payable by us to M & M Real Estate Investment Company Limited for the Macau Property will not exceed HK$320,000. The rental was determined based on comparable market rent.

Based on the historical performance, total assets and projected market capitalization of our Group, in respect of the rental of the Macau Property from M & M Real Estate Investment Company Limited, each of the applicable percentage ratios on an annual basis falls below 0.1%. Therefore, such transaction will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements applicable to continuing connected transactions.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

BOARD OF DIRECTORS

Our Board consists of ten Directors, comprising four executive Directors, two non-executive Directors and four independent non-executive Directors.

Our Board is responsible and has general powers for the management and conduct of our business. The following table sets forth certain information regarding our Directors:

Name	Age	Position	Date of Appointment as Director	Key Role
Se Hok Pan (佘學彬)	51	Executive Director, Chairman and President	July 27, 2007	Overall strategic planning, business development and management of our Group
Un Son I (袁順意)	45	Executive Director, Vice President and General Manager of the Supply Chain Management Department	July 27, 2007	Procurement control and logistics management of our Group
She Jian Bin (佘建彬)	54	Executive Director, Vice President and General Manager of the Sales and Distribution Department	May 8, 2008	Overall management of the sales and distribution network of our Group
Chow Chi Keung, Savio (周志強)	48	Executive Director and General Manager of the International Sales and Distribution Department	May 8, 2008	Managing overseas sales and distribution network of our Group
Homer Sun (孫弘)	40	Non-executive Director	May 8, 2008	Overseeing our Group's management and strategic development
Eddy Huang (黃翊)	36	Non-executive Director	May 8, 2008	Overseeing our Group's management and strategic development
Li Kwok Cheung, Arthur (李國章)	66	Independent Non-executive Director	May 4, 2011	Overseeing our Group's management and strategic development
Zhang Sen Lin (張森林)	64	Independent Non-executive Director	May 4, 2011	Overseeing our Group's management and strategic development
Chan Siu Wing, Raymond (陳兆榮)	46	Independent Non-executive Director	May 4, 2011	Overseeing our Group's management and strategic development
Ho King Fung, Eric (何敬豐)	34	Independent Non-executive Director	May 4, 2011	Overseeing our Group's management and strategic development

Executive Directors

Mr. Se Hok Pan (佘學彬), age 51, is the Chairman and President of our Company and was appointed a Director on July 27, 2007. Mr. Se is a co-founder of our Group. Mr. Se is responsible for formulating overall strategies, planning and business development of our Company, managing and supervising the financial management functions, human resources and sales and marketing of the Company and is instrumental to our growth and business expansion since our establishment in 2004. Mr. Se began his career in the flooring products industry in 1995 and has approximately 16 years of experience in the flooring products industry. Mr. Se holds important positions in influential industry associations. He is currently the vice president of China Forestry Industry Association (中國林業產業協會), and one of the drafters of the China National Standards for Solid Wood Flooring (中國實木地板國家標準) which came into effect in 2009. Mr. Se is also a member of the Gansu Provincial Committee of Chinese People's Political Consultative Conference (中國政協甘肅省委員會) and the vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Mr. Se served as a general manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Mr. Se served as a president at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. Se has received numerous high profile awards such as the "Robert A. Mundell World Executive Awards (2004)," "China Forestry Industry Annual Person (2009)"(中國林業產業年度人物) as recognized by China National Forest Products Association (中國林產工業協會) and China Forestry Industry Association (中國林業產業協會) and "The Most Influential Figures in the 15-Year Development of China's Flooring Industry (2010)" (中國地板行業輝煌十五年最具影響力人物獎). Mr. Se is the spouse of Ms. Un Son I.

Ms. Un Son I (袁順意), age 45, is a Vice President of our Company and the General Manager of the Supply Chain Management Department of our Group. Ms. Un was appointed a Director on July 27, 2007. Ms. Un is a co-founder of our Group. Ms. Un is responsible for networking and development of relationship with suppliers, procurement control, logistics management and asset management and control to ensure the supply chain operates efficiently. Ms. Un has approximately 16 years of experience in the flooring products industry. Ms. Un is a member of China-ASEAN Organization (中國東盟協會) and vice president of the Industry and Commerce Association of Macau (澳門工商聯會). From 1995 to 2001, Ms. Un served as a deputy general manager and a procurement manager at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城). From July 2001 to September 2004, Ms. Un was a director of president office, a director of human resources and a director of the procurement center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Ms. Un was awarded as one of the "100 Outstanding Female Entrepreneurs of China" (中國百名傑出女企業家). Ms. Un is the spouse of Mr. Se Hok Pan.

Mr. She Jian Bin (佘建彬), age 54, is a Vice President of our Company and the General Manager of the Sales and Distribution Department of our Group. Mr. She was appointed a Director on May 8, 2008. Mr. She is responsible for the overall management of the sales and distribution network of the Group, devising and overseeing the execution of our brand building and sales and marketing strategies, analyzing market trends and development, and managing and supervising daily operations of distributors and The Sales and Distribution Department. Mr. She has approximately 23 years of experience in the timber industry and the flooring products industry. Mr. She was a purchasing manager of wood at P.T. Sumber Laris Jaya Manufacturer Timber Industry from 1988 to 1994 and worked at Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城) for its production, sales and distribution management from 1995 to 2001. During the period between July 2001 and September 2004, Mr. She served as a director of the sales center at Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Mr. She has received "15 Prosperous Years of the China Flooring Industry — Promotion of Industry Development Award" (中國地板行業輝煌十五年傑出行業建設推動獎) in 2010. Mr. She joined our Group in 2004 and has since held various managerial positions in sales and distribution. Mr. She is the elder brother of Mr. Se Hok Pan.

Mr. Chow Chi Keung Savio (周志强), age 48, is the General Manager of the International Sales and Distribution Department of our Group. Mr. Chow was appointed a Director on May 8, 2008. Mr. Chow is responsible for managing the overseas sales and distribution network of our Group, including management of overseas distributors, supermarkets and retail stores, supervising the development of business strategies according to the local market conditions, marketing and advertising of our products. Mr. Chow has approximately ten years of experience in the flooring products industry. Mr. Chow joined our Group in 2004 and has since held various managerial positions in the areas of manufacturing, quality control and sales and distribution. Mr. Chow qualified for a Bachelor of Science program and obtained a Bachelor of Engineering (Electrical and Electronic) degree from the University of Adelaide in 1987 and 1988, respectively. Mr. Chow is the brother-in-law of Mr. Se Hok Pan and Ms. Un Son I.

Non-executive Directors

Mr. Homer Sun (孫弘), age 40, joined the Board on May 8, 2008. Mr. Sun is currently a managing director of Morgan Stanley Asia Limited and leads Morgan Stanley Private Equity Asia's China investments. He is currently a non-executive director of Sihuan Pharmaceutical Holdings Group Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 460) and China Shanshui Cement Group Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 691). Mr. Sun has been with the Morgan Stanley group of companies since April 2000 and worked on a wide range of mergers and acquisitions in Greater China in the Investment Banking Division of Morgan Stanley Asia Limited prior to joining Morgan Stanley Private Equity Asia. From September 1996 to March 2000, he was a corporate attorney specializing in mergers and acquisitions with Simpson Thacher & Bartlett in New York and Hong Kong. Mr. Sun received a Bachelor of Science in Engineering degree in Chemical Engineering, *magna cum laude*, from the University of Michigan in 1993 and a J.D., *cum laude*, from the University of Michigan Law School in 1996.

Mr. Eddy Huang (黃翊), age 36, joined the Board on May 8, 2008. Mr. Huang is currently a managing director of Morgan Stanley Asia Limited and a senior member of Morgan Stanley Private Equity Asia focusing on China investments. Mr. Eddy Huang has been with Morgan Stanley Asia Limited since 2003 and advised on a broad range of technology, media and telecommunications transactions across Greater China for Morgan Stanley Asia Limited's Investment Banking Division prior to joining Morgan Stanley Private Equity Asia. Prior to joining Morgan Stanley Asia Limited, Mr. Huang was previously with Morgan Stanley's Investment Banking Division in New York. Mr. Huang is currently a non-executive director of Sihuan Pharmaceutical Holdings Group Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 460). He is also a director of CIMIC Industrial Group Ltd. and its subsidiary, Shanghai CIMIC Tiles Co., Ltd., which is a Shenzhen-listed company (Stock Code: 002162). Mr. Huang received a Bachelor of Liberal Arts degree from Yale University in 1997 and a Master of Business Administration degree from Harvard Business School in 2002.

Independent Non-executive Directors

Professor Li Kwok Cheung, Arthur (李國章), age 66, was appointed as an independent non-executive Director with effect from May 4, 2011. Professor Li is currently the deputy chairman of

The Bank of East Asia, Limited (Stock Code: 23) and an independent non-executive director of Shangri-La Asia Limited (Stock Code: 69), both being companies listed on the Hong Kong Stock Exchange, a non-executive director of AFFIN Holdings Berhad in Malaysia and BioDiem Ltd. in Australia. Professor Li is also a member of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會). Professor Li served as Professor of Surgery (Founding Chair) in the Department of Surgery of The Chinese University of Hong Kong from 1982 to 2005. In addition, Professor Li was the Dean of the Faculty of Medicine of The Chinese University of Hong Kong from 1992 to 1996 and the Vice-Chancellor of the university from 1996 to 2002. Professor Li was a non-executive director of Glaxo Wellcome plc. from 1997 to 2000. In 2002, Professor Li became Secretary for Education and Manpower as well as a member of the Executive Council of the Hong Kong Special Administrative Region Government and his term ended in June 2007. Prior to 2002, Professor Li was a non-executive director of The Bank of East Asia Limited, China Mobile Limited, Henderson Cyber Limited and The Wharf (Holdings) Limited. During the same period of time, Professor Li was also the non-executive chairman of Corus and Regal Hotels plc. Professor Li resigned from all these positions in 2002 when he assumed his role as Secretary for Education and Manpower in Hong Kong. Professor Li obtained his medical degree from University of Cambridge in 1969. Professor Li has confirmed that he has not, by himself or through any firms, provided profession services to the Company during the Track Record Period.

Mr. Zhang Sen Lin (張森林), age 64, was appointed as an independent non-executive Director with effect from May 4, 2011. Mr. Zhang is currently an independent director of Guangdong Weihua Corporation (廣東威華股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002240), an independent director of Sichuan Shengda Forestry Industry Co., Ltd. (四川升達林業產業股份有限公司) (Stock Code: 002259), a company listed on the Shenzhen Stock Exchange and the consultant to the Chinese National Forest Group Corporation (中國林產工業協會). Mr. Zhang has over 20 years of experience in forestry. Mr. Zhang was previously the president of Chinese National Forest Products Industry Association (中國林產工業協會), an independent director of Guangdong Yihua Timber Industry Co., Ltd. (廣東宜華木業股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600978) and a director of China Jilin Forest Industry Group Co., Ltd. (中國吉林森林工業集團有限責任公司). Mr. Zhang also served as the deputy factory manager and acting factory manager of Jiangxi Timber Mill (江西木材廠) and manager of Jiangxi Province Forestry Industry Company (江西省林業工業公司). Mr. Zhang graduated from Nanjing Forestry University (南京林業大學), majoring in forestry industry and qualified as a professor level senior engineer. Mr. Zhang also studied pulp and paper-making technology and management in Georgia Institute of Technology and modern business management from University of Houston in the United States. Mr. Zhang has confirmed that he has not, by himself or through any firms, provided profession services to the Company during the Track Record Period.

Mr. Chan Siu Wing, Raymond (陳兆榮), age 46, was appointed as an independent non-executive Director with effect from May 4, 2011. Mr. Chan is currently an executive director of ENM Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 128). Mr. Chan also holds the position of independent non-executive director of Phoenitron Holdings Limited (formerly known as Cardlink Technology Group Limited) (Stock Code: 8066), a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. Mr. Chan has over 20 years of experience in the field of accounting, taxation, finance and trust. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a certified practicing accountant of the Australian Society of Certified Practising Accountants, and a founding member of the Macau Society of Certified Practising Accountants. For the period from September 28, 2004 to December 22, 2009, Mr. Chan was an independent non-executive director of Prosperity Investment Holdings Limited (formerly known as GR Investment International Limited) (Stock Code: 310). For the period from April 2, 2009 to April 7, 2010, Mr. Chan was an independent non-executive director of Karce International Holdings Company Limited (Stock Code: 1159). Both Prosperity Investment Holdings Limited and Karce International Holdings Company Limited are companies listed on the Main Board of the Hong Kong Stock Exchange. For the period from September 1, 2008 to November 30, 2010, Mr. Chan was an independent non-executive director of Pan Asia Mining Limited (formerly known as Intelli-Media Group (Holdings) Limited) (Stock Code: 8173), a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. Mr. Chan has confirmed that he has not, by himself or through any firms, provided profession services to the Company during the Track Record Period.

Mr. Ho King Fung, Eric (何敬豐), age 34, was appointed as an independent non-executive Director with effect from May 4, 2011. Mr. Ho is a solicitor of the Hong Kong Special Administrative Region and the chairman and executive director of Ample Hope Limited. Mr. Ho is currently a non-executive director of United Energy Group Limited (Stock Code: 467), a company listed on the Hong Kong Stock Exchange. In Macau, Mr. Ho is also the chairman of P&W Money Changer Limited and Jing Yang Company Limited, and an executive director of Mascargo (Macau) Company Limited. Mr. Ho joined JP Morgan in 2000 as an analyst and worked as a trainee solicitor at Linklaters between 2003 and 2005 and as an associate between 2005 and 2006. Between 2007 and 2010, Mr. Ho worked at Deutsche Bank AG, Hong Kong Branch and his last position held was vice president and head of Hong Kong and Macau Origination. He is a committee member of the Chinese People's Political Consultative Conference of Beijing (中國人民政治協商會議北京市委員會) and the president of Money Exchangers' Association of Macao. Mr. Ho was also awarded China's Top 10 Economic Talents (十大中華經濟英才) in 2009. Mr. Ho graduated from the University of New South Wales, Australia with Bachelor of Commerce (Finance) and Bachelor of Laws degrees. Mr. Ho has confirmed that he has not, by himself or through any firms, provided profession services to the Company during the Track Record Period.

Please refer to the paragraph headed "Appendix IX — Statutory and General Information — Further Information about Directors and Substantial Shareholders" in this document for details of the Directors' interests in the Shares, particulars of Directors' service agreements and Directors' remuneration.

Save as disclosed above, each of our Directors has confirmed that he/she has not held any other directorships in listed companies during the three years immediately prior to the date of this document and that there are no other matters relating to his/her appointment as a Director that need to be brought to the attention of the shareholders of our Company and there is no other information in relation to his/her appointment which is required to be disclosed.

SENIOR MANAGEMENT

The following table sets forth certain information concerning our other senior management members:

Name	Age	Position	Date of Appointment to Position	Key Role
Teoh Chun Ming (張振明)	41	Chief Financial Officer Company Secretary	September 1, 2008 March 26, 2009	Financial and company secretarial matters of our Group
Liang Zhihua (梁志華)	47	General Manager of the Production Department	July 1, 2009	Overall management of the production plants and manufacturing facilities of our Group
Meng Qingyan (孟慶焰)	44	Director of the Planning and Management Department	January 1, 2010	Developing, executing and monitoring strategic plans of our Group
Lin Hao (林皓)	40	Executive Deputy General Manager of the Sales and Distribution Department	January 1, 2010	Assisting the General Manager of the Sales and Distribution Department in the overall management of the sales and distribution network of our Company
Shen Naiqiang (沈乃强)	48	Director of the Quality Assurance Centre	February 14, 2006	Overall quality assurance functions of our Group
Li Zhengliang (李正亮)	45	General Manager of the Jiangxi Shangrao Project (江西上饒項目)	October 1, 2007	Overall production operation and management of the Jiangxi Shangrao Project
Yang Shulin (楊樹林)	55	General Manager of the South America Department	February 1, 2008	Overall business operations of our Group in Peru
Rao Haiqing (饒海清)	37	Assistant to the General Manager of the Sales and Distribution Department Director of the Channel Department	January 1, 2010 January 1, 2009	Assisting the General Manager of the Sales and Distribution Department in the overall management of the sales and distribution network of our Company; overall management of sales channels

Mr. Teoh Chun Ming (張振明), age 41, is the Chief Financial Officer of our Group and Company Secretary of our Company. Mr. Teoh joined our Group in 2008 and was appointed as the Chief Financial Officer and the Company Secretary on September 1, 2008 and March 26, 2009, respectively. Mr. Teoh is responsible for developing the financial strategy for our Group, participating in formulating major investment plans of our Group, providing financial advice for management decision making and overseeing our Group's company secretarial matters. Mr. Teoh has 20 years of accounting and finance experience. Prior to joining our Group, Mr. Teoh held senior positions in accounting and finance in various companies listed on the Hong Kong Stock Exchange. Mr. Teoh is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Teoh obtained a master's degree in professional accounting from the Hong Kong Polytechnic University in 2005.

Mr. Liang Zhihua (梁志華), age 47, is the General Manager of the Production Department of our Group. Mr. Liang was appointed to the current position on July 1, 2009 and is responsible for the overall management of the production plants and manufacturing facilities of our Group, such as overseeing the execution of management policies and processes of the production plants of our Group, coordinating the sharing of facilities, raw materials and other resources between production plants, organizing regular plant safety inspections, and development and production of new products. He has five years of experience in the flooring products industry. Mr. Liang joined our Group in 2006 and has since held various managerial positions in the general affairs, human resources and production departments as well as the President's Office of our Group. Mr. Liang is the brother-in-law of Mr. She Jian Bin and Mr. Se Hok Pan.

Ms. Meng Qingyan (孟慶焰), age 44, is the director of the Planning and Management Department of our Group. Ms. Meng was appointed to the current position on January 1, 2010 and is responsible for developing, executing and monitoring our Group's strategic plans by collecting relevant market information and establishing key business processes. Ms. Meng has over 13 years of experience in the wood flooring industry. Ms. Meng joined our Group in 2008 and has held managerial positions in the solid wood business department, product centre and planning and management department since joining our Group. From May 1997 to June 2001, Ms. Meng was a warehouse keeper, a warehouse supervisor, head of statistics and an order manager of Shunde Daliang Yingbin Wood Furniture Mall (順德市大良區盈彬木器傢俬城) and during the period between July 2001 and December 2007, Ms. Meng was an order manager of the business department, director of the business center and a general manager of solid wood business department of Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司). Ms. Meng obtained a bachelor's degree in wood processing from Northeast Forestry University (東北林業大學) in 1989 and qualified as a wood processing engineer in 1995.

Mr. Lin Hao (林皓), age 40, is the Executive Deputy General Manager of the Sales and Distribution Department of our Group. Mr. Lin was appointed to the current position on January 1, 2010 and is responsible for assisting the General Manager of the Sales and Distribution Department in the overall management of the sales and distribution network of our Company, namely achieving the Company's target on sales, profits and sales distribution of the Sales and Distribution Department, planning and management of orders from the Sales and Distribution Centre, analyzing market trends and development and management of distributors and the Operations Department. Mr. Lin has approximately ten years of experience in sales and marketing. Mr. Lin joined our Group in 2008 and had served as the assistant to the Chairman and director of brand management centre of our Group. Before joining our Group, Mr. Lin was a director of the brand center, a director of the sales center and a vice president of the brand committee of Guangdong Yingbin-Nature Wood Industry Co., Ltd. (廣東盈彬大自然木業有限公司) from August 2001 to December 2007. Mr. Lin was awarded an "Outstanding Manager" as Elite of the Flooring Industry by the Chinese Flooring Committee of Chinese National Forest Products Industry Association (中國林產工業協會中國地板專業委員會) in 2004, the Fifth Golden Tripod Award of Chinese Marketing Excellence (第五屆中國傑出營銷人金鼎獎) by the Golden Tripod Award of Chinese Marketing Excellence Committee (中國傑出營銷人金鼎獎評委會) in 2007, and was awarded the "15 Prosperous Years of the China Flooring Industry — Outstanding Manager Award" (中國地板行業輝煌十五年傑出經理人獎) in 2010. Mr. Lin graduated from the Faculty of Chinese of the Jianghan University (江漢大學) in 1992.

Mr. Shen Naiqiang (沈乃强), age 48, is the director of the Quality Assurance Centre of our Group. Mr. Shen was appointed to the current position on February 14, 2006 and is responsible for the overall quality assurance functions of our Group, namely developing the quality objectives, quality policy and quality management system of our Group, developing and codifying internal product standards, participating in national and industry product standards review, and quality arbitration of our Group's marketed products. Mr. Shen joined our Group in 2006 and serves in our quality assurance centre. Mr. Shen has 14 years of experience in the flooring products industry. Prior to joining our Group, Mr. Shen held senior managerial positions in timber and flooring products companies. Mr. Shen was a plant manager and deputy general manager of Foshen Nanhai Jingcheng Woodwork Co., Ltd. (佛山市南海精誠木業有限公司) from January 1997 to May 2004 and was a production director of Zhejiang Shiyou Timber Co., Ltd. (浙江世友木業有限公司) from June 2004 to February 2006.

Mr. Li Zhengliang (李正亮), age 45, is the General Manager of the Jiangxi Shangrao Project of our Group. Jiangxi Shangrao Project was the basis for the establishment of Jiangxi Yingran and our flooring factory in Shangrao, Jiangxi Province, PRC. Mr. Li was appointed to the current position on October 1, 2007 and is responsible for the overall production operation and management of the Jiangxi Shangrao Project. Mr. Li has approximately 14 years of experience in the management of wood based panels plants. Prior to joining our Group in 2007, Mr. Li held senior managerial positions in various timber and flooring products companies. Mr. Li served as a deputy plant manager at Jiangxi Yichun Medium Density Fiberboard Factory (江西宜春中密度纖維板廠) from August 1997 to September 2001, a chief engineer at Huomanneite Co., Ltd. (霍曼內特有限公司) from October 2001 to June 2003 and a deputy general manager and general manager at Daya Wood (Maoming) Co., Ltd. (大亞木業（茂名）有限公司) from July 2003 to October 2005. Mr. Li was also a senior management of Asia Dekor (Huizhou) Woods Co., Ltd. (亞洲創建（惠州）木業有限公司) from November 2005 to March 2006 and a general manager of Krono (Jiangsu) Wood/Flooring Co., Ltd. (柯諾（江蘇）木業/地板有限公司) from March 2006 to September 2007. Mr. Li graduated from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) and was qualified as a senior engineer in 2001 and as a senior professional manager and certified assets manager in 2009.

Mr. Yang Shulin (楊樹林), age 55, is the General Manager of the South America Department of our Group. Mr. Yang was appointed to the current position on February 1, 2008 and is responsible for the overall business operations of our Group in Peru, such as raw material purchases, wood processing and export sales. Mr. Yang joined our Group in 2007 and previously served as the general manager of Kunshan Nature. Mr. Yang has over three years of experience in management of wood business. Mr. Yang was a part-time professor at the College of Material Science and Technology of Beijing Forestry University (北京林業大學) from January 2007 to December 2009. Mr. Yang graduated from Tsinghua University (清華大學) in 1982 and was qualified as a senior engineer in forestry in 1996. Mr. Yang also pursued the master of business administration program at University of International Business and Economics (對外經濟貿易大學) from 2002 to 2004.

Mr. Rao Haiqing (饒海清), age 37, is the Assistant to the General Manager of the Sales and Distribution Department, and director of the Channel Department of our Group. Mr. Rao was appointed as the Assistant to General Manager of the Sales and Distribution Department and Director of the Channel Department on January 1, 2010 and January 1, 2009, respectively. Mr. Rao is responsible for assisting the General Manager of the Sales and Distribution Department in the overall management of the sales and distribution network of our Company, namely analyzing market information and sales data, assisting the General Manager in public relations and in making major decisions in relation to market risks, assisting in coordinating inter-departmental conflicts and overall management of distributors, supermarket, sales to property development companies and retail outlets operations. Mr. Rao has approximately 10 years of experience in flooring products industry. Mr. Rao joined our Group in 2004 and has since held positions in various departments, namely the sales and distribution, supermarket, after-sales services and channel departments. Mr. Rao graduated from Zhanjiang Ocean University (湛江海洋大學), now known as Guangdong Ocean University (廣東海洋大學).

COMPANY SECRETARY

Mr. Teoh Chun Ming (張振明), a member of our senior management, was appointed as the Company Secretary of our Company on March 26, 2009. Biographical information of Mr. Teoh Chun Ming is set out in the paragraph headed "Senior Management" above.

BOARD COMMITTEES

Audit Committee

Our Directors have approved on May 3, 2011 the establishment of an audit committee with effect from ●, with written terms of reference. The audit committee consists of three independent non-executive Directors, namely Mr. Chan Siu Wing, Raymond, Mr. Zhang Sen Lin, and Mr. Ho King Fung, Eric. Mr. Chan Siu Wing, Raymond, an independent non-executive Director with the appropriate professional qualifications, has been appointed as chairman of the audit committee.

The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

Our Directors have approved on May 3, 2011 the establishment of a remuneration committee with effect from ● with written terms of reference. The remuneration committee consists of three independent non-executive Directors, namely Professor Li Kwok Cheung, Arthur, Mr. Zhang Sen Lin, and Mr. Ho King Fung, Eric. Professor Li Kwok Cheung, Arthur has been appointed as the chairman of the remuneration committee.

The primary duties of the remuneration committee include (i) making recommendations to our Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all executive Directors and senior management and making recommendations to our Board of the remuneration of the non-executive Directors; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Board from time to time.

Executive Committee

Our Directors have approved on May 3, 2011 the establishment of an executive committee with effect from ● with written terms of reference approved by the Directors. The executive committee consists of two executive Directors, namely Mr. Se Hok Pan and Ms. Un Son I. Mr. Se Hok Pan has been appointed as the chairman of the executive committee.

The primary duties of the executive committee include, among other things, (i) implementing the business plan and company strategies as approved by the Board and developing specific implementation plan; and (ii) monitoring and overseeing the implementation of the budget as approved by the Board.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of fees, salaries, allowances, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse our Directors and senior management for expenses which are necessarily and reasonably incurred for providing services to us or discharging their duties in relation to our operations. When reviewing and determining the specific remuneration packages for our executive Directors and senior management, our remuneration committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of our Directors, employment elsewhere in our Group and desirability of performance-based remuneration.

The aggregate amounts of remuneration (including directors' fees, salaries, allowances, discretionary bonus and other benefits in kind, including equity settled share-based payment expenses) paid to our Directors for the years ended December 31, 2008, 2009 and 2010 were approximately RMB7.4 million, RMB6.3 million and RMB6.3 million, respectively.

The aggregate amounts of remuneration (including salaries and other emoluments, including equity settled share-based payment expenses) paid to the five highest paid individuals of our Company who included five Directors for the year ended December 31, 2008 and three Directors for the years ended December 31, 2009 and 2010 were approximately RMB7.4 million, RMB8.5 million and RMB8.8 million, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office in respect of the years ended December 31, 2008, 2009 and 2010. Further, none of our Directors have waived any remuneration during the same period.

Save as disclosed above, no other payments have been paid or are payable, in respect of the years ended December 31, 2008, 2009 and 2010, by us or any of our subsidiaries to our Directors.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) and benefits in kind (including the retirement benefit contribution) payable by us to our Directors for the year ending December 31, 2011 is estimated to be approximately RMB7.0 million.

EMPLOYEES

As of December 31, 2010, our Group had a total of 1,837 full-time employees. Set out below is a breakdown of the number of our full-time employees by functions:

Functions	Number of Employees
Finance	69
Management	104
Production, Technical Support and Quality Control	949
Sales and Marketing	378
Logistics and Purchasing	165
Administration and Human Resources	117
Product Development	55
Total	1,837

We recruit our personnel from the open market. We offer competitive remuneration packages to our employees, including salaries and bonuses to qualified employees. We provide technical as well as operational training to all new employees and on-going training for all employees. Since our Group was established, we have not experienced any significant turnover of staff nor any disruption to our business operations due to labor disputes. Our Directors consider that our Group has maintained a good relationship with our employees.

For the three years ended December 31, 2010, we have complied, in all material respects, with relevant PRC labor laws and regulations in all material respects, including contributing to employee retirement benefit schemes, medical and social security insurance schemes and housing provident fund. In Hong Kong, our Group has participated in a mandatory provident fund scheme for our employees in Hong Kong in accordance with the applicable Hong Kong laws and regulations.

(A) So far as our Directors are aware, immediately following completion of ● and based on the information available on the Latest Practicable Date (assuming ● is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of the options granted under the Previous Share Option Scheme or may be granted under the Share Option Scheme), the following persons will be substantial shareholders of the Company (i.e. any person who is entitled to exercise, or control the exercise of 10% of more of the voting power at any general meeting of the Company):

Name of Shareholder	Number of Shares held immediately after ●	Approximate percentage of interest in the Company immediately after completion of ● (assuming ● is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of the options granted under the Previous Share Option Scheme or may be granted under the Share Option Scheme)
Freewings (Note 1)	●	●%
MS Flooring (Note 2)	●	●%

Notes:

(1) Freewings is an investment holding company incorporated under the laws of BVI on April 1, 2008. The issued share capital of Freewings is owned as to 44.92% by Team One Investments, 39.81% by Trader World, 8.69% by Mr. She Jian Bin, 4.39% by Mr. Chow Chi Keung Savio and 2.19% by Mr. Nam Cheung Ming Louis.
Team One Investments and Trader World are wholly-owned by Mr. Se Hok Pan and Ms. Un Son I, respectively.

(2) MS Flooring is an exempted company incorporated in the Cayman Islands, and is wholly-owned by MSPEA III Cayman. MSPEA III Cayman is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is MSPEA III, a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPEA III is MSPEA III GP, the managing member of which is MSPEA III Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is an indirect wholly-owned subsidiary of Morgan Stanley.

Saved as disclosed above, our Directors are not aware of any person who will, immediately following ● and based on the information available on the Latest Practicable Date (assuming ● is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of the options granted under the Previous Share Option Scheme or may be granted under the Share Option Scheme), be entitled to exercise, or control the exercise of 10% of more of the voting power at any general meeting of the Company.

(B) So far as our Directors are aware, immediately following completion of ● and based on the information available on the Latest Practicable Date (assuming ● is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of options granted under the Previous Share Option Scheme or may be granted under the Share Option Scheme), the following persons (who is neither our director nor chief executive) will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company:-

Name of Shareholder	Nature of interest	Number of Shares held immediately after ● (Note 1)	Approximate percentage of interest in the Company immediately after ● (assuming ● is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of the options granted under the Previous Share Option Scheme or may be granted under the Share Option Scheme)
Freewings (Note 2)	Beneficial interest	●	●%
Team One Investments (Note 2)	Interest in controlled corporation	●	●%
Trader World (Note 2)	Interest in controlled corporation	●	●%
MS Flooring (Note 3)	Beneficial interest	●	●%
MSPEA III Cayman (Note 3)	Interest in a controlled corporation	●	●%
MSPEA III (Note 3)	Interest in a controlled corporation	●	●%
MSPEA III GP (Note 3)	Interest in a controlled corporation	●	●%
MSPEA III Inc. (Note 3)	Interest in a controlled corporation	●	●%
IFC (Note 4)	Beneficial interest	●	●%

Notes:

(1) All interests stated are long positions.

(2) Freewings is an investment holding company incorporated under the laws of BVI on April 1, 2008. The issued share capital of Freewings is owned as to 44.92% by Team One Investments, 39.81% by Trader World, 8.69% by Mr. She Jian Bin, 4.39% by Mr. Chow Chi Keung Savio and 2.19% by Mr. Nam Cheung Ming Louis. Team One Investments is an investment holding company incorporated under the laws of BVI on March 1, 2011, the entire issued share capital of which is held by Mr. Se Hok Pan. Trader World is an investment holding company incorporated under the laws of BVI on March 1, 2011, the entire issued share capital of which is held by Ms. Un Son I. Each of Team One Investments and Trader World is deemed to be interested in all the Shares registered in the name of Freewings.

(3) MS Flooring is an exempted company incorporated in the Cayman Islands, and is wholly-owned by MSPEA III Cayman. MSPEA III Cayman is an exempted company incorporated in the Cayman Islands with limited liability, whose majority shareholder is MSPEA III, a fund managed by the private equity arm of Morgan Stanley. The general partner of MSPEA III is MSPEA III GP, the managing member of which is MSPEA III Inc., an investment advisor registered with the U.S. Securities and Exchange Commission and which is an indirect wholly-owned subsidiary of Morgan Stanley. Each of MSPEA III Cayman, MSPEA III, MSPEA III GP and MSPEA III Inc., is deemed to be interested in the Shares held by MS Flooring.

(4) IFC is a member of the World Bank Group and is established by its Articles of Agreement among over 180 member countries, including the PRC and all the Shares will be held by IFC as the sole legal and beneficial owner.

Save as disclosed above, our Directors are not aware of any persons (who is neither our director nor chief executive) who will, immediately following ● and based on the information available on the Latest Practicable Date (assuming ● is not exercised and without taking into account any Shares which may be issued pursuant to the exercise of the options granted under the Previous Share Option Scheme or may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company.

For more details on our Director or chief executive who has an interest or short position in the Shares and underlying Shares of our Company which, once the Shares are ●, would fall to be disclosed to our Company, please see the paragraph headed "Appendix IX — Statutory and General Information — Further Information about Directors and Substantial Shareholders" in this document.

SHARE CAPITAL

The following is a description of the capital structure of our Company.

Number of shares comprised in the authorized share capital as of the Latest Practicable Date

Class	Number	Par value per share US$	Total nominal value US$
ordinary shares	282,000,000	0.001	282,000.000
preferred shares	83,999,999	0.001	83,999.999
non-voting preferred shares	40,000,000	0.001	40,000.000
special share	1	0.001	0.001
Total			406,000.000

Previous Share Option Scheme

We have adopted a Previous Share Option Scheme. Details of the principal terms of our Previous Share Option Scheme are summarized in the section headed "Appendix IX — Statutory and General Information — Share Option Schemes — Previous Share Option Scheme" to this document.

Share Option Scheme

We have conditionally adopted a Share Option Scheme. Details of the principal terms of our Share Option Scheme are summarized in the section headed "Appendix IX — Statutory and General Information — Share Option Schemes — Share Option Scheme" to this document.

Issuing Mandate

Our Directors have been granted a general unconditional mandate (the "Issuing Mandate") to allot, issue and deal with our Shares with an aggregate nominal value of not more than the sum of:

(1) 20% of the total nominal amount of our issued share capital of our Company immediately following the completion of ● and the Capitalization Issue; and

(2) the aggregate nominal amount of the issued share capital of our Company repurchased by our Company (if any) pursuant to the Repurchase Mandate.

The Issuing Mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or

- at the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
- at the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company,

whichever is the earliest.

For further details of this Issuing Mandate, please see the paragraph headed "Appendix IX — Statutory and General Information — Written resolutions of all our Shareholders passed on May 3, 2011" to this document.

Repurchase Mandate

Our Directors have been granted the repurchase mandate, which is a general unconditional mandate (the "Repurchase Mandate") to exercise all our powers to repurchase Shares with a total nominal value of not more than 10% of the aggregate of the total nominal amount of our Company's share capital in issue immediately following completion of ● and the Capitalization Issue.

The Repurchase Mandate will expire:

- at the conclusion of our next annual general meeting of our Company;
- at the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
- at the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at a general meeting of our Company,

whichever is the earliest.

For further details of this repurchase mandate, see the paragraph headed "Appendix IX — Statutory and General Information — Written resolutions of all our Shareholders passed on May 3, 2011" to this document.

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 document. 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 document.

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 manufacturing facilities 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 the Frost & Sullivan, in 2009, our branded products ranked second in laminated flooring with a 7.2% market share, first in multi-layered engineered flooring with a 5.3% market share and first in solid wood flooring with a 7.4% market share, in terms of retail sales value in China. 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 as well as products manufactured by authorized manufacturers from which we receive trademark and distribution network usage fees. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own factories accounted for 60.5%, 66.7% and 67.3% of the total Wholesale Volume of our branded products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 37.7%, 31.4% and 30.3%, respectively.

(2) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and greater than 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 document 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) 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 manufacturing factories and authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own manufacturing 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 added in January 2011, which had not commenced operation until 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 of products that our own manufacturing 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, the 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, an independent valuation firm. 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 document. 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 document.

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 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.

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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	—
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 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 as a percentage 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 for 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 for 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 — Raw Materials Supply — 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, 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 ●; (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 exclusive 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 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 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 trade 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	129,614
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**	**297,547**
Net current assets	**544,798**	**138,547**	**789,407**	**809,936**

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 RMB810.0 million, a RMB20.6 million increase from RMB789.4 million at December 31, 2010.

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)					
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)					
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) 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 for percentage)					
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) 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 1 month or on demand	47,722	88,061	60,666
Due after one month but within 3 months	24,118	94,815	14,293
Due after 3 months but within 6 months	8,292	20,270	4,279
Due after 6 months abut within 12 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 document 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 (Beijing) Consulting Co. Ltd., Shanghai Branch ("Pöyry"), an independent valuation firm. 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 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 in the second quarter of 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 forecast 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.

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."

We plan to finance our future capital expenditures primarily through ●, 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 do 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 ● 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 document and we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

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 document, we did not have any material off-balance sheet arrangements except for the commitments disclosed above.

Except as disclosed in this document, 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 there have been no material change in the indebtedness, commitments and contingent liabilities of our Group as of the Latest Practicable Date.

PROPERTY VALUATION

BMI Appraisals Limited, an independent property valuer, has valued our property interests in relation to all industrial complex 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 document 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 document		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 document		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 document 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 document 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 document 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 circumstances and on the bases and assumptions set out in "Appendix III — Profit Forecast" to this document, 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 a short period from the date of this document to six months ending June 30, 2011. Therefore, we expect immaterial change in timber volume.

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).

MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this document, 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 document.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

Future Plans

Please see "Business — Our Strategies" for a detailed description of our future plans.

The following is the text of a report, prepared for the purpose of incorporation in this document, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

May 16, 2011

The Directors
China Flooring Holding Company Limited

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Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to China Flooring Holding Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended December 31, 2008, 2009 and 2010 (the "Relevant Period"), and the consolidated balance sheets of the Group and the balance sheets of the Company as at December 31, 2008, 2009 and 2010 together with the notes thereto (the "Financial Information"), for inclusion in the document of the Company dated May 16, 2011 (the "Document").

The Company was incorporated in the Cayman Islands on July 27, 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization completed on May 8, 2008 (the "Reorganization") as detailed in the section headed "History and Development" in the Document, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation saves for the aforementioned Reorganization.

As at the date of this report, no audited financial statements have been prepared for the Company, China Flooring Trading Company Limited, M.A. International Investments and Holdings Company Limited, Great Nature Investments and Holdings Company Limited, Nature Casa Holding Company Limited, Nature Flooring Industries Inc., Nature Wood (Peru) S.A.C. and Nature America S.A.C. as they are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdictions of incorporation.

The Company and its subsidiaries have adopted December 31, as their financial year end date. Details of the subsidiaries that are subject to statutory audit during the Relevant Period and the names of the respective auditors are set out in note 1(b) of Section C below. The statutory financial statements of these companies were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), General Financial Reporting Standards issued by the Government of Macau Special Administrative Region ("MFRSs") or the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC").

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended December 31, 2008, 2009 and 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and ●.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of ●, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline ● issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to December 31, 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group's consolidated results and cash flows for the Relevant Period, and the state of affairs of the Group and the Company as at December 31, 2008, 2009 and 2010.

A BASIS OF PRESENTATION

The companies that took part in the Reorganization now comprising the Group were controlled by the same group of ultimate equity shareholders, Mr Se Hok Pan and Mrs Un Son I (together referred to as the "Controlling Shareholders") before and after the Reorganization. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the Controlling Shareholders and, therefore, the Reorganization is considered to be a business combination of entities under common control.

Merger accounting has been applied in the accounting of the Reorganization. The consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements of the Group as set out in Section B include the results of operations of the Company and its subsidiaries for the Relevant Period (or where the Company and its subsidiaries were incorporated/established at a date later than January 1, 2008, for the period from the date of incorporation/establishment to December 31, 2010) as if the Reorganization was completed at the beginning of the Relevant Period. The consolidated balance sheets of the Group as at December 31, 2008, 2009 and 2010 as set out in Section B below have been prepared to present the state of affairs of the Group as at the respective dates as if the Reorganization was completed at the beginning of Relevant Period.

All material intra-group transactions and balances have been eliminated on consolidation.

As at the end of each reporting period and the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private limited companies or, if incorporated/established outside Hong Kong have substantially the same characteristics as a Hong Kong private company. The particulars of the Company's subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Authorized capital/ paid-up capital	Attributable equity interest		Principal activities
			Direct	Indirect	
China Wood Flooring Holding Company Limited ("Wood Flooring") 中國木地板控股有限公司	the British Virgin Islands August 9, 2007	USD50,000/ USD2	100%	—	Investment holding
M.A. International Investments and Holdings Company Limited ("M.A. International") M.A.國際投資控股有限公司	Macau November 6, 2003 (deregistered on November 28, 2008)	MOP100,000/ MOP100,000	—	— **	Investment holding and trading of wood flooring

Name of company	Place and date of incorporation/ establishment	Authorized capital/ paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Great Nature Investments and Holdings Company Limited ("Great Nature") 大自然投資控股有限公司	Macau February 4, 2004	MOP100,000/ MOP100,000	—	100%	Brand's holding
YS Nature International Trading Co., Ltd. ("YS Nature") 盈順國際貿易有限公司	Macau October 20, 2006	MOP50,000/ MOP50,000	—	100%	Investment holding and trading of wood cores and wood flooring
Grace Glory Limited ("Grace Glory") 悦亮有限公司	Hong Kong September 30, 2005	HKD10,000/ HKD2	—	100%	Investment holding and trading of wood flooring
Good Harvest Worldwide Limited 豐收環球 有限公司	Hong Kong October 24, 2007	HKD10,000/ HKD1	—	100%	Dormant
Asia Legend Industrial Limited 景駿實業 有限公司	Hong Kong December 7, 2007	HKD10,000/ HKD1	—	100%	Investment holding
Asia Hero Enterprises Limited ("Asia Hero") 成傑企業 有限公司	Hong Kong December 19, 2007 (disposed of on December 10, 2010 (note 10))	HKD10,000/ HKD2	—	—**	Investment holding
Prime World International Investment Limited 栢匯國際投資有限公司	Hong Kong January 22, 2008	HKD10,000/ HKD1	—	100%	Investment holding
Fortune Team International Limited 富添國際 有限公司	Hong Kong February 11, 2008	HKD10,000/ HKD1	—	100%	Investment holding
Nature Flooring Holding Company Limited (formerly Cheerco Industrial Limited) 大自然地板控股 (香港) 有限公司 (原 "展豪產業有限公司")	Hong Kong February 11, 2008	HKD10,000/ HKD2	—	100%	Investment holding and trading of wood flooring
Cheerway Industrial Limited 捷偉實業 有限公司	Hong Kong February 11, 2008	HKD10,000/ HKD100	—	100%	Investment holding and trading of wood cores and wood flooring
Ever Sharp Industrial Limited 國耀實業 有限公司	Hong Kong February 25, 2008	HKD10,000/ HKD100	—	100%	Investment holding and trading of wood flooring

Name of company	Place and date of incorporation/ establishment	Authorized capital/ paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
China Flooring Trading Company Limited (formerly China Flooring Holding Company Limited) 中國地板貿易有限公司 (原"中國地板控股有限公司")	Hong Kong September 5, 2008	HKD10,000/ HKD1	—	100%	Investment holding
Sun Pine Investment Limited ("Sun Pine") 柏耀投資有限公司	Hong Kong March 10, 2009	HKD10,000/ HKD1	—	100%	Investment holding and trading of wood flooring
Nature Casa Holding Company Limited ("Nature Casa") 大自然家居控股有限公司	Hong Kong November 19, 2010	HKD10,000/ HKD1	—	100%	Investment holding
Nature (Zhongshan) Wood Industry Co., Ltd. ("Zhongshan Nature") 中山市大自然木業有限公司*	the PRC October 13, 2004	USD6,150,000/ USD6,150,000	—	100%	Wood flooring manufacturing
Nature (Yichun) Wood Industry Co., Ltd. ("Yichun Nature") 伊春大自然木業有限公司*	the PRC April 6, 2006 (deregistered on July 9, 2009)	USD1,700,000/ USD1,700,000	—	— **	Plywood manufacturing
Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. ("Kunshan Nature") 昆山盈意大自然木業有限公司*	the PRC December 29, 2006	USD9,600,000/ USD9,600,000	—	100%	Wood flooring manufacturing
Guangdong Yingran Wood Industry Co., Ltd. ("Guangdong Yingran") 廣東盈然木業有限公司*	the PRC January 16, 2007	USD9,000,000/ USD9,000,000	—	100%	Wood flooring manufacturing
Yingtai (Hailin) Wood Industry Co., Ltd. ("Hailin Yingtai") 海林盈泰木業有限公司*	the PRC May 16, 2007 (disposed of on December 10, 2010 (note 10))	USD7,500,000/ USD7,500,000	—	— **	Wood flooring manufacturing

Name of company	Place and date of incorporation/ establishment	Authorized capital/ paid-up capital	Attributable equity interest Direct	Attributable equity interest Indirect	Principal activities
Nature (Zhangjiagang) Wood Industry Co., Ltd. ("Zhangjiagang Nature") 大自然(張家港)木業有限公司*	the PRC March 3, 2008	USD10,000,000/ USD10,000,000	—	100%	Wood flooring manufacturing
Jiangxi Nature Wood Based Panels Co., Ltd. ("Jiangxi Nature") 江西大自然人造板有限公司*	the PRC April 22, 2008	USD10,000,000/ USD10,000,000	—	100%	Artificial board manufacturing
Jiangxi Yingran Wood Industry Co., Ltd. ("Jiangxi Yingran") 江西盈然地板有限公司*	the PRC July 15, 2008	USD10,000,000/ USD10,000,000	—	100%	Floorboard manufacturing
Jiangxi Yingran Forest Development Co., Ltd. ("Jiangxi Forest") 江西盈然林業發展有限公司*	the PRC June 30, 2009	USD5,000,000/ USD3,450,000	—	100%	Extraction and sale of timber and forest operations
Nature Flooring (China) Co., Ltd. ("Nature China") 大自然地板(中國)有限公司*	the PRC December 18, 2009	RMB50,000,000/ RMB50,000,000	—	100%	Trading of wood flooring
Nature Flooring Industries Inc. ("Nature Flooring")	the United States of America (the "USA") May 7, 2007	USD10,000/ USD10,000	—	100%	Trading of wood flooring
Nature Wood (Peru) S.A.C. ("Nature Wood")	Peru March 17, 2008	PEN500,000/ PEN500,000	—	100%	Trading of wood flooring
Nature America S.A.C. ("Nature America")	Peru March 13, 2008	PEN500,000/ PEN500,000	—	100%	Trading of wood flooring, extraction and sale of timber and forest operations

* These subsidiaries are wholly foreign owned enterprises ("WFOEs") established in the PRC and the official names of these companies are in Chinese. The English translation of these companies' names is for reference only.

** The Company had 100% indirect interests in these subsidiaries from January 1, 2008 to their respective dates of deregistration/disposal.

B FINANCIAL INFORMATION

1. Consolidated income statements

	Section C Note	Years ended December 31, 2008 RMB'000	2009 RMB'000	2010 RMB'000
Turnover	2 & 9(b)	885,409	990,462	1,623,908
Cost of sales		(545,815)	(631,835)	(1,116,205)
Gross profit		339,594	358,627	507,703
Other net income	3(a)	400	749	7,976
Net change in fair value of biological assets	15	—	81,869	106,798
Distribution costs		(59,352)	(55,674)	(95,798)
Administrative expenses		(76,428)	(50,134)	(81,066)
Other operating expenses	3(b)	(809)	(2,644)	(2,727)
Profit from operations		203,405	332,793	442,886
Finance income		4,069	4,096	2,823
Finance costs		(50,970)	(74,866)	(42,017)
Net finance costs	4(a)	(46,901)	(70,770)	(39,194)
Profit before taxation	4	156,504	262,023	403,692
Income tax	5(a)	(10,540)	(38,197)	(63,555)
Profit attributable to equity shareholders of the Company for the year		145,964	223,826	340,137
Earnings per share (RMB):				
Basic	8(a)	2.32	3.20	3.78

The accompanying notes form part of the Financial Information.

2. Consolidated statements of comprehensive income

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit for the year	145,964	223,826	340,137
Other comprehensive income/(loss) for the year			
Exchange differences on translation of financial statements of entities not using RMB as functional currency	11,349	(1,928)	(1,721)
Total comprehensive income attributable to equity shareholders of the Company for the year	157,313	221,898	338,416

The accompanying notes form part of the Financial Information.

3. Consolidated balance sheets

	Section C Note	As at December 31, 2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets				
Property, plant and equipment	12	210,204	371,369	354,960
Intangible assets	13	—	165	622
Lease prepayments	14	58,144	61,754	67,672
Biological assets	15	—	100,848	246,211
Investments in equity securities	11	—	—	15,200
Other receivables	17	46,380	14,028	3,237
Deferred tax assets	24(c)	—	8,535	6,739
		314,728	556,699	694,641
Current assets				
Inventories	16	218,855	339,013	279,636
Trade and other receivables	17	377,263	465,737	564,298
Pledged deposits	18	17,543	22,389	43,462
Cash and cash equivalents	19	104,133	200,075	297,652
		717,794	1,027,214	1,185,048
Current liabilities				
Trade and other payables	20	150,329	285,216	193,387
Loans and borrowings	21	15,000	597,176	183,458
Obligations under finance leases	22	2,096	—	—
Income tax payables	24(a)	5,571	6,275	18,796
		172,996	888,667	395,641
Net current assets		544,798	138,547	789,407
Total assets less current liabilities		859,526	695,246	1,484,048
Non-current liabilities				
Loans and borrowings	21	490,645	68,311	103,481
Deferred tax liabilities	24(c)	—	29,818	38,300
Total non-current liabilities		490,645	98,129	141,781
NET ASSETS		368,881	597,117	1,342,267
CAPITAL AND RESERVES				
Share capital	25	490	490	775
Reserves	26	368,391	596,627	1,341,492
TOTAL EQUITY		368,881	597,117	1,342,267

The accompanying notes form part of the Financial Information.

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

4. Company balance sheets

	Section C Note	As at December 31, 2008 RMB'000	2009 RMB'000	2010 RMB'000
Non-current assets				
Investment in subsidiaries	10	346,711	336,964	300,815
		346,711	336,964	300,815
Current assets				
Other receivables	17	537,843	540,752	641,782
Cash and cash equivalents	19	4,475	3	164
		542,318	540,755	641,946
Current liabilities				
Other payables and accruals	20	3,466	5,575	84,480
Loans and borrowings	21(a)	—	571,670	—
		3,466	577,245	84,480
Net current assets/(liabilities)		538,852	(36,490)	557,466
Non-current liabilities				
Loans and borrowings	21(a)	490,645	—	—
Total non-current liabilities		490,645	—	—
NET ASSETS		394,918	300,474	858,281
CAPITAL AND RESERVES				
Share capital	25	490	490	775
Reserves	26	394,428	299,984	857,506
TOTAL EQUITY		394,918	300,474	858,281

The accompanying notes form part of the Financial Information.

5. Consolidated statements of changes in equity

	Share capital	Share premium	Statutory surplus reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Total equity
	RMB'000 (Note 25)	RMB'000 (Note 26(d))	RMB'000 (Note 26(a))	RMB'000 (Note 26(b))	RMB'000 (Note 26(c))	RMB'000	RMB'000
Balance at January 1, 2008	449	—	11,743	7,761	596	85,208	105,757
Changes in equity for 2008							
Profit for the year	—	—	—	—	—	145,964	145,964
Other comprehensive income	—	—	—	11,349	—	—	11,349
Total comprehensive income	—	—	—	11,349	—	145,964	157,313
Arising from Reorganization (note 26(c)(iv))	(99)	—	—	—	99	—	—
Capitalization issue (note 25(b))	140	73,190	—	—	—	—	73,330
Equity component of convertible notes	—	—	—	—	30,271	—	30,271
Transfer to statutory surplus reserve	—	—	42,130	—	—	(42,130)	—
Equity settled share-based payment transactions (note 23)	—	—	—	—	2,210	—	2,210
Balance at December 31, 2008 and January 1, 2009	490	73,190	53,873	19,110	33,176	189,042	368,881
Changes in equity for 2009							
Profit for the year	—	—	—	—	—	223,826	223,826
Other comprehensive loss	—	—	—	(1,928)	—	—	(1,928)
Total comprehensive income	—	—	—	(1,928)	—	223,826	221,898
Transfer to statutory surplus reserve	—	—	34,880	—	—	(34,880)	—
Equity settled share-based payment transactions (note 23)	—	—	—	—	6,338	—	6,338
Balance at December 31, 2009 and January 1, 2010	490	73,190	88,753	17,182	39,514	377,988	597,117
Changes in equity for 2010							
Profit for the year	—	—	—	—	—	340,137	340,137
Other comprehensive loss	—	—	—	(1,721)	—	—	(1,721)
Total comprehensive income	—	—	—	(1,721)	—	340,137	338,416
Conversion of convertible notes to preference shares (note 21(a))	285	629,348	—	—	(30,271)	—	599,362
Transfer to statutory surplus reserve	—	—	40,400	—	—	(40,400)	—
Dividends approved in respect of the previous years (note 26(g))	—	(200,619)	—	—	—	—	(200,619)
Equity settled share-based payment transactions (note 23)	—	—	—	—	7,991	—	7,991
Balance at December 31, 2010	775	501,919	129,153	15,461	17,234	677,725	1,342,267

The accompanying notes form part of the Financial Information.

6. Consolidated cash flow statements

	Section C Note	Years ended December 31, 2008	2009	2010
		RMB'000	RMB'000	RMB'000
Operating activities				
Profit for the year		145,964	223,826	340,137
Adjustments for:				
—Net change in fair value of biological assets	15	—	(81,869)	(106,798)
—Net finance costs		46,901	70,770	39,194
—Income tax expenses	5(a)	10,540	38,197	63,555
—Equity settled share-based payment transactions	23	2,210	6,338	7,991
—Depreciation of property, plant and equipment		8,540	16,605	30,102
—Amortization of lease prepayments in respect of land use rights		739	1,391	1,453
—Net loss on disposal of property, plant and equipment		312	555	949
—Amortization of intangible assets		—	54	95
—Net loss on disposal of subsidiaries	3(b) & 10	—	—	232
		215,206	275,867	376,910
Change in inventories		(154,676)	(120,158)	57,209
Change in trade and other receivables		(256,120)	(87,926)	(96,668)
Change in trade and other payables		54,889	125,535	(54,049)
Increase in pledged deposits		(17,543)	(4,846)	(21,073)
Cash (used in)/generated from operations		(158,244)	188,472	262,329
PRC income tax paid		(4,495)	(12,542)	(33,995)
Non-PRC income tax paid		(474)	(3,668)	(993)
PRC dividend withholding tax paid		—	—	(7,395)
Net cash (used in)/generated from operating activities		(163,213)	172,262	219,946
Investing activities				
Interest received		2,036	1,935	2,823
Disposal of subsidiaries, net of cash disposed of	10	—	—	21,558
Proceeds from disposal of property, plant and equipment		5,547	5,765	1,323
Payment for acquisition of property, plant and equipment		(169,902)	(130,195)	(60,572)
Payment for acquisition of biological assets		—	(18,991)	(41,530)
Payment for investment in equity securities	11	—	—	(15,200)
Prepayment for investment in equity securities	17	—	—	(4,250)
Payment for acquisition of intangible assets		—	(219)	(552)
Lease prepayments for land use rights		(48,033)	(5,001)	(7,371)
Repayment from related parties	29(b)(ii)	11,500	—	—
Net cash used in investing activities		(198,852)	(146,706)	(103,771)
Financing activities				
Proceeds from issue of ordinary shares	25(b)(i)	350	—	—
Proceeds from issue of convertible notes	21(a)	488,854	—	—
Payment for transaction costs	21(a)	(5,601)	—	—
Proceeds from new bank loans		44,260	110,896	460,304
Repayment of bank loans		(49,460)	(32,079)	(266,706)
Proceeds from new loans from shareholders	29(b)(i)	10,258	—	—
Repayment of loans from shareholders	29(b)(ii)	(93,745)	(2,166)	—
Dividends paid	26(g)	—	—	(200,619)
Interest paid		(2,815)	(5,607)	(9,990)
Payment of finance lease liabilities		(54)	—	—
Net cash generated from/(used in) financing activities		392,047	71,044	(17,011)
Net increase in cash and cash equivalents		29,982	96,600	99,164
Cash and cash equivalents at January 1,		75,001	104,133	200,075
Effect of foreign exchange rate changes		(850)	(658)	(1,587)
Cash and cash equivalents at December 31,	19	104,133	200,075	297,652
Significant non-cash transactions				
Disposal of equipment to settle finance lease liabilities	22	—	2,096	—
Capitalization of loans from shareholders as fully paid ordinary shares	29(b)	73,330	—	—
Conversion of convertible notes to preference shares	21(a)	—	—	599,362

The accompanying notes form part of the Financial Information

C NOTES TO CONSOLIDATED FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes International Accounting Standards and related interpretations, promulgated by the IASB. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new accounting standards or interpretations that are not yet effective for the accounting period ended December 31, 2010. The revised new accounting standards and interpretations issued but not yet effective for the accounting period beginning January 1, 2010 are set out in note 32.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of ●.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

Details of the companies comprising the Group that are subject to statutory audit during the Relevant Period and the names of the respective auditors are set out below:

Name of company	Financial period	Statutory auditors
YS Nature	Years ended December 31, 2008, 2009 and 2010	Wong Wai Pan, Register Auditor 黃慧斌核數師辦事處
Grace Glory	Years ended December 31, 2008, 2009 and 2010	Lo and Kwong C.P.A Company Limited ("Lo and Kwong C.P.A") 盧廣會計師事務所有限公司
Good Harvest Worldwide Limited	Years ended December 31, 2008, 2009 and 2010	Lo and Kwong C.P.A
Asia Legend Industrial Limited	Years ended December 31, 2008, 2009 and 2010	Lo and Kwong C.P.A
Asia Hero Enterprises Limited	Years ended December 31, 2008 and 2009**	Lo and Kwong C.P.A

Name of company	Financial period	Statutory auditors
Prime World International Investment Limited	Period from January 22, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	Lo and Kwong C.P.A
Fortune Team International Limited	Period from February 11, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	Lo and Kwong C.P.A
Nature Flooring Holding Company Limited	Period from February 11, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	Lo and Kwong C.P.A
Cheerway Industrial Limited	Period from February 11, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	Lo and Kwong C.P.A
Ever Sharp Industrial Limited	Period from February 25, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	Lo and Kwong C.P.A
China Flooring Trading Company Limited	Period from September 5, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	Lo and Kwong C.P.A
Sun Pine	Period from March 10, 2009 (date of incorporation) to December 31, 2009 Year ended December 31, 2010	Lo and Kwong C.P.A
Zhongshan Nature	Years ended December 31, 2008, 2009 and 2010	Foshan Shunde Guang De Certified Public Accountants ("Guang De C.P.A") 佛山市順德區廣德會計師事務所*
Yichun Nature	Year ended December 31, 2008 and period from January 1, 2009 to July 9, 2009 (date of deregistration)	Qitaihe Bei Ke Certified Public Accountants 七台河貝克會計師事務所*
Kunshan Nature	Years ended December 31, 2008, 2009 and 2010	Suzhou Hua Ming Certified Public Accountants 蘇州華明聯合會計師事務所*

Name of company	Financial period	Statutory auditors
Guangdong Yingran	Years ended December 31, 2008, 2009 and 2010	Guang De C.P.A
Hailin Yingtai	Years ended December 31, 2008 and 2009**	Hailin Hao Guang Certified Public Accountants 海林昊光會計師事務所*
Zhangjiagang Nature	Period from March 3, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	Zhangjiagang Chang Xing Certified Public Accountants 張家港長興會計師事務所*
Jiangxi Nature	Period from April 22, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	Shangrao An Xin Yong Chen C.P.A Company Limited ("An Xin Yong Chen C.P.A") 上饒市安信永辰會計師事務所*
Jiangxi Yingran	Period from July 15, 2008 (date of incorporation) to December 31, 2008 Years ended December 31, 2009 and 2010	An Xin Yong Chen C.P.A
Jiangxi Forest	Period from June 30, 2009 (date of incorporation) to December 31, 2009 and Year ended December 31, 2010	An Xin Yong Chen C.P.A
Nature China	Period from December 18, 2009 (date of incorporation) to December 31, 2009 Year ended December 31, 2010	Shenzhen Yong Cheng Xin Zhong Certified Public Accountants 深圳永誠信眾會計師事務所* Guang De C.P.A

* The official names of these companies are in Chinese. The English translation of these companies' names is for reference only.

** These two companies were disposed of on December 10, 2010 (note 10).

The statutory financial statements of these companies were prepared in accordance with HKFRSs, MFRSs or the relevant accounting rules and regulations applicable to entities in the PRC.

(c) Basis of measurement

The Financial Information has been prepared on the historical cost basis except that biological assets are measured at fair value less costs to sell. The functional currency of the Company is United States Dollars ("USD"). The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand, except for per share data, which is the functional currency of the Group's major operating entities.

(d) Use of estimates and judgments

The preparation of the Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 31.

(e) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries and controlled entities are included in the Financial Information from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

In the Company's balance sheets, an investment in a subsidiary is stated at cost less impairment losses (note 1(o)).

(ii) Acquisition from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the entities are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognized at the carrying amounts at the date of the completion of the Reorganization. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognized as part of share premium. Any cash paid for the acquisition is recognized directly in equity.

(iii) Transactions eliminated on consolidation

All income, expenses and unrealized gains and losses resulting from intra-group transactions and intra-group balances are eliminated in preparing the Financial Information.

(f) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities dominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

The assets and liabilities of entities with functional currencies other than RMB are translated into RMB at exchange rates at the reporting date. The income and expense of these entities are translated into RMB at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a Group entity with functional currency other than RMB is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a Group entity with functional currency other than RMB is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in that Group entity and are recognized in other comprehensive income, and are presented in the translation reserve in equity.

(g) Investments in equity securities

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the balance sheet at cost less impairment losses (note 1(o)).

(h) Financial instruments

(i) Non-derivative financial instruments

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Details of the recognition and measurement of the financial instruments of the Group are summarized below:

(i) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(iii) Loans and borrowings

Loans and borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(iv) Trade and other payables

Trade and other payables are initially recognized at fair value. Trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(ii) 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 recorded in the other reserves within equity and 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 remeasured subsequent to initial recognition.

Upon conversion of the convertible notes, 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 earnings.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

Preference share capital

Preference share capital is classified as equity. Dividends thereon are recognized as distributions within equity upon approval by the Company's shareholders.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (note 1(o)).

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plants and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognized net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for current and comparative years are as follows:

• Buildings and plant	20 years
• Machinery and equipment	5–10 years
• Motor vehicles	5 years
• Office equipment and furniture	3–5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) Construction in progress

Construction in progress represents property, plant and equipment items which are under construction or machinery pending for installation, which is stated at cost less impairment losses (note 1(o)).

Cost comprises direct costs of construction during the construction period. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete. No depreciation is provided in respect of construction in progress.

(j) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses (note 1(o)).

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Software 5 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Biological assets

Biological assets are measured at fair value less 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. Standing timber is transferred to inventory at its fair value less estimated costs to sell at the date of harvest.

The fair value of biological assets is determined by independent professional valuers.

(l) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the assets held under operating leases are not recognized in the Group's consolidated balance sheets.

(m) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated as cost less accumulated amortization and impairment losses (note 1(o)). Amortization is recognized in profit or loss on a straight-line basis over the respective period of rights which are 50 years.

(n) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of the production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of timber harvested from biological assets is its fair value less estimated costs to sell at the date of harvest, determined in accordance with the accounting policy for biological assets (note 1(k)).

(o) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers in the Group.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses recognized in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than biological assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

The Group's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment loss is recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amounts of other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(p) Employee benefit

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Share-based payment transactions

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, taking into account 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 earnings).

(q) Provisions and contingent liabilities

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue

(i) Sales of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is 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 revenue 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 revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of timber and wood flooring products, usually transfer 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.

(ii) Trademark and distribution network usage fees

Revenue from trademark and distribution network usage fees is 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.

(s) Government grants

An unconditional government grant is recognized in profit or loss when the grant becomes receivable. Other government grants are recognized initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which the expenses are recognized. Grants that compensate the Group for the cost of an asset are recognized in profit or loss on a systematic basis over the useful life of the asset.

(t) Lease payments

Payments made under operating leases, including lease prepayments in respect of land use rights, are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(u) Finance income and finance costs

Finance income comprises interest income on deposits in banks. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on bank loans, convertible notes and finance leases. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

Foreign exchange gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(v) Income tax

Income tax expense comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are also recognized for unused tax losses. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(w) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's controlling shareholders, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Turnover

The principal activities of the Group are manufacturing and sale of flooring products, trademark and distribution network usage fees and trading of timber and flooring products.

Turnover represents the sales value of goods supplied to customers and income from trademark and distribution network usage fees. The amount of each significant category of revenue recognized in turnover during the Relevant Period is as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Manufacturing and sale of flooring products	599,710	726,717	1,088,766
Trademark and distribution network usage fees	153,374	160,183	202,066
Trading of timber and flooring products	132,325	103,562	333,076
	885,409	990,462	1,623,908

The Group's customer base is diversified and includes only one customer with whom transactions exceeded 10% of the Group's aggregate revenue for the year ended December 31, 2008. Revenue from this customer amounted to approximately RMB121,502,000 for the year ended December 31, 2008. The Group did not have any customer with whom transactions exceeded 10% of the Group's aggregate revenue for the years ended December 31, 2009 and 2010. Details of concentrations of credit risk arising from these customers are set out in note 27(a).

Further details regarding the Group's principal activities are disclosed in note 9.

3 Other net income/other operating expenses

(a) Other net income

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Government grants	250	153	6,860
Others	150	596	1,116
	400	749	7,976

(b) Other operating expenses

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Loss on disposal of subsidiaries (note 10)	—	—	232
Net loss on disposal of property, plant and equipment	312	555	949
Donations	345	1,526	1,152
Others	152	563	394
	809	2,644	2,727

4 Profit before taxation

Profit before taxation is arrived at after (crediting) / charging:

(a) Finance income and finance costs

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Interest income on bank deposits	(2,036)	(1,935)	(2,823)
Net foreign exchange gain	(2,033)	(2,161)	—
Finance income	(4,069)	(4,096)	(2,823)
Interest expense on bank loans	2,669	5,607	9,990
Interest expense on convertible notes (note 21(a))	48,155	81,526	30,875
Interest on finance leases	146	—	—
Net foreign exchange loss	—	—	1,152
Total interest expenses	50,970	87,133	42,017
Less: interest expense capitalized into property, plant and equipment*	—	(12,267)	—
Finance costs	50,970	74,866	42,017
Net finance costs recognized in profit or loss	46,901	70,770	39,194

* The borrowing costs have been capitalized at a rate of 15.42% for the year ended December 31, 2009.

(b) Staff costs

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries, wages and other benefits	55,716	62,512	86,163
Contributions to defined contribution retirement plan	2,483	2,981	4,167
Equity settled share-based payment expenses (note 23)	2,210	6,338	7,991
Termination benefits	84	—	—
	60,493	71,831	98,321

Staff costs included directors' and senior management's remuneration.

The employees of the companies in the PRC participate in a defined contribution retirement scheme operated by the local government whereby the Group is required to contribute to the scheme at rate of 8-10% of the eligible employees' basic salary. The local government authority is responsible for the entire pension obligations payable to the retired employees.

The Group has no other obligations to make payment of retirement and other post-retirement benefits of its employees other than the contributions described above.

(c) Other items

	Note	Years ended December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Cost of inventories*	16	542,251	629,855	1,113,479
Net impairment losses recognized/(reversed) for receivables	17(b)	17,830	(8,521)	(3,003)
Depreciation				
—other assets		8,229	16,605	30,102
—assets held under finance leases		311	—	—
Amortization				
—lease prepayments		739	1,391	1,453
—intangible assets		—	54	95
Net loss on disposal of property, plant and equipment		312	555	949
Operating lease charges		3,238	3,562	4,074
Auditors remuneration		3,822	2,288	4,603

* For the years ended December 31, 2008, 2009 and 2010, cost of inventories includes RMB29,016,000, RMB44,983,000 and RMB73,566,000 respectively relating to staff costs, depreciation and operating lease charges, amounts of which are also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

5 Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current tax			
Provision for PRC income tax (note 24(a))	7,386	15,554	45,595
Provision for Hong Kong Profits Tax (note 24(a))	—	—	294
Provision for income tax from subsidiaries in other jurisdictions (note 24(a))	3,154	1,360	1,620
Provision for PRC dividend withholding tax (note 24(a))	—	—	7,395
	10,540	16,914	54,904
Deferred tax			
Origination and reversal of temporary differences (note 24(b))	—	21,283	8,651
	10,540	38,197	63,555

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit before taxation	156,504	262,023	403,692
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned (i)	50,281	71,410	111,052
Tax effect of non-deductible expenses	222	246	1,769
Tax effect of non-taxable income (ii)	—	(820)	(27,930)
Deferred tax recognized at different tax rates	—	(536)	(4,284)
Tax effect of un-recognized tax loss	3,747	2,408	2,402
Tax effect of provision for/(reversal of) un-recognized temporary difference	4,983	1,350	(1,172)
Recognition of previously unrecognized temporary differences and tax losses	—	(4,873)	—
Deferred tax for withholding tax on distributable profits (iv)	—	21,122	20,204
Effect of tax concessions (iii)	(48,693)	(52,110)	(38,486)
Income tax expense	10,540	38,197	63,555

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision for United States profits tax as the Group had no assessable profits subject to United States profits tax during the Relevant Period.

No provision for Hong Kong Profits Tax for the years ended December 31, 2008 and 2009 as the Group had no assessable profits subject to Hong Kong Profits Tax. During the year ended December 31, 2010, Cheerway generated assessable profits under Hong Kong Profits Tax and the provision for Hong Kong Profits Tax was calculated at 16.5%.

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The Group's subsidiaries incorporated 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 Relevant Period.

The Group's subsidiaries incorporated in Peru were subject to income tax rates of 5% or 10% for different provinces in Peru during the Relevant Period.

Effective from January 1, 2008, the PRC's statutory income tax rate is 25%.

(ii) For the year ended December 31, 2010, the tax effect of non-taxable income of RMB27,527,000 mainly consists of gains from change in fair value of biological assets (note 15) recorded by Jiangxi Forest. According to relevant Corporate Income Tax Law in the PRC, income derived from projects in the forestry industry is exempted from Corporate Income Tax.

(iii) Prior to January 1, 2008, some of the Group's PRC entities, being manufacturing foreign invested enterprises, were each entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the income tax rate commencing from their respective first profit-making years from a PRC tax perspective ("2+3 tax holiday").

On March 16, 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "CIT Law"), which was effective on January 1, 2008. The CIT Law and its relevant regulations grandfather the 2+3 tax holidays until their expiry. Accordingly, the following preferential tax rates are noted for certain entities of the Group in the PRC:

- Zhongshan Nature is subject to income tax at 12.5% from 2008 to 2010;
- Kunshan Nature was tax exempted for 2008 and 2009 and is subject to income tax at 12.5% from 2010 to 2012; and
- Guangdong Yingran was tax exempted for 2008 and is subject to income tax at 12.5% from 2009 to 2011.

(iv) According to the CIT Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since January 1, 2008. Pursuant to the Sino-Hong Kong Double Tax Arrangement and Sino-Macau Double Tax Arrangement and the related regulations, a qualified Hong Kong or Macau tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong or Macau tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. The Group has adopted the 5% withholding tax rate for PRC withholding tax purposes.

Pursuant to the Corporate Income Tax Law of Peru, overseas investors of the domiciled legal entities shall be liable for withholding income tax at 4.1%.

6 Directors' remuneration

Details of directors' remuneration are set below:

Year ended December 31, 2008

	Directors' fees	Salaries, allowances and other benefits in kind	Discretionary bonuses	Retirement scheme contributions	Subtotal	Equity settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Se Hok Pan	2,380	238	—	—	2,618	—	2,618
Ms. Un Son I	—	161	1,546	—	1,707	—	1,707
Mr. Chow Chi Keung	—	79	1,250	—	1,329	—	1,329
Mr. She Jian Bin	—	157	399	4	560	—	560
Mr. Nam Cheung Ming (resigned on February 23, 2009)	—	63	982	—	1,045	164	1,209
Non-executive directors							
Mr. Homer Sun	—	—	—	—	—	—	—
Mr. Eddy Huang	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Li Kwok Cheung	—	—	—	—	—	—	—
Mr. Zhang Sen Lin	—	—	—	—	—	—	—
Mr. Chan Siu Wing	—	—	—	—	—	—	—
Mr. Ho King Fung	—	—	—	—	—	—	—
	2,380	698	4,177	4	7,259	164	7,423

Year ended December 31, 2009

	Directors' fees	Salaries, allowances and other benefits in kind	Discretionary bonuses	Retirement scheme contributions	Subtotal	Equity settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Se Hok Pan	2,254	307	—	—	2,561	—	2,561
Ms. Un Son I	—	240	1,497	—	1,737	—	1,737
Mr. Chow Chi Keung	—	195	1,211	—	1,406	—	1,406
Mr. She Jian Bin	—	196	352	7	555	—	555
Non-executive directors							
Mr. Homer Sun	—	—	—	—	—	—	—
Mr. Eddy Huang	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Li Kwok Cheung	—	—	—	—	—	—	—
Mr. Zhang Sen Lin	—	—	—	—	—	—	—
Mr. Chan Siu Wing	—	—	—	—	—	—	—
Mr. Ho King Fung	—	—	—	—	—	—	—
	2,254	938	3,060	7	6,259	—	6,259

Year ended December 31, 2010

	Directors' fees	Salaries, allowances and other benefits in kind	Discretionary bonuses	Retirement scheme contributions	Subtotal	Equity settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Se Hok Pan	2,298	245	—	—	2,543	—	2,543
Ms. Un Son I	—	228	1,526	—	1,754	—	1,754
Mr. Chow Chi Keung	—	285	1,234	—	1,519	—	1,519
Mr. She Jian Bin	—	154	359	7	520	—	520
Non-executive directors							
Mr. Homer Sun	—	—	—	—	—	—	—
Mr. Eddy Huang	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Li Kwok Cheung	—	—	—	—	—	—	—
Mr. Zhang Sen Lin	—	—	—	—	—	—	—
Mr. Chan Siu Wing	—	—	—	—	—	—	—
Mr. Ho King Fung	—	—	—	—	—	—	—
	2,298	912	3,119	7	6,336	—	6,336

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

7 Individual with highest emoluments

During the years ended December 31, 2008, 2009 and 2010, five, three and three of the five highest paid individuals were also the directors of the Company respectively.

The remuneration of the remaining individuals is as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	—	240	800
Discretionary bonuses	—	1,948	1,364
Equity settled share-based payment expenses	—	569	843
	—	2,757	3,007

The emoluments of these remaining individuals with the highest emoluments are within the following bands:

	Years ended December 31,		
	2008	2009	2010
	Number of individuals	Number of individuals	Number of individuals
HKD			
1,000,001 — 2,000,000	—	2	2

8 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the Relevant Period, calculated as follows:

(i) *Profit attributable to ordinary equity shareholders of the Company*

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit attributable to equity shareholders of the Company	145,964	223,826	340,137
Dividends on preference shares	—	—	(75,232)
Profit attributable to ordinary equity shareholders of the Company	145,964	223,826	264,905

(ii) *Weighted average number of ordinary shares*

	Years ended December 31,		
	2008	2009	2010
	'000	'000	'000
Issued ordinary shares at January 1,	50	70,000	70,000
Effect of subdivision of ordinary shares issued (note 25(b)(i))	49,950	—	—
Effect of capitalization issue (note 25(b)(i))	13,041	—	—
Weighted average number of ordinary shares at December 31,	63,041	70,000	70,000

(b) ●

9 Segment reporting

The Group manages its business by different lines of business and geographical locations. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Manufacturing and sale of flooring products: this segment primarily consists of manufacturing and sale of flooring products
- Trademark and distribution network usage fees: this segment primarily consists of fees income for products manufactured by OEM companies but sold under the trademarks and distribution network owned by the Group
- Trading of timber and flooring products: this segment primarily consists of timber trading and export of flooring products

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is "profit from operations". To arrive at "profit from operations", the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as head office or corporate administration costs and net change in fair value of biological assets.

Segment assets and liabilities are not regularly reported to the Group's chief operating decision maker and therefore information of reportable segment assets and liabilities are not presented in the Financial Information.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the Relevant Period are set out below.

	Manufacturing and sale of flooring products			Trademark and distribution network usage fees			Trading of timber and flooring products			Total		
	Years ended December 31,			Years ended December 31,			Years ended December 31,			Years ended December 31,		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers (note 2)	599,710	726,717	1,088,766	153,374	160,183	202,066	132,325	103,562	333,076	885,409	990,462	1,623,908
Inter-segment revenue	22,543	5,024	3,185	—	—	—	22,014	—	15,022	44,557	5,024	18,207
Reportable segment revenue	622,253	731,741	1,091,951	153,374	160,183	202,066	154,339	103,562	348,098	929,966	995,486	1,642,115
Reportable segment profit	98,237	115,794	191,130	91,165	133,867	137,787	25,153	9,812	15,181	214,555	259,473	344,098
Depreciation and amortization for the year	(6,928)	(14,613)	(26,791)	—	—	—	—	—	(1,237)	(6,928)	(14,613)	(28,028)
Net impairment of trade receivables (charged)/reversed	(674)	(7,748)	2,915	(17,076)	17,076	—	(80)	(807)	88	(17,830)	8,521	3,003

(b) Reconciliations of reportable segment revenues and profits

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Revenue			
Reportable segment revenue	929,966	995,486	1,642,115
Elimination of inter-segment revenue	(44,557)	(5,024)	(18,207)
Consolidated revenue	885,409	990,462	1,623,908

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Profit			
Reportable segment profit	214,555	259,473	344,098
Elimination of inter-segment profits	(709)	—	(91)
Reportable segment profit derived from external customers	213,846	259,473	344,007
Other net (loss)/income	(409)	(1,895)	5,249
Net change in fair value of biological assets	—	81,869	106,798
Depreciation and amortization	(2,351)	(3,437)	(3,622)
Net finance costs	(46,901)	(70,770)	(39,194)
Unallocated head office and corporate expenses	(7,681)	(3,217)	(9,546)
Consolidated profit before taxation	156,504	262,023	403,692

(c) Geographic information

Analysis of the Group's turnover by geographical market has not been presented as substantially all the Group's turnover is generated in the PRC, Hong Kong and Macau.

The following table sets out information about the geographical location of the Group's fixed assets, lease prepayments, intangible assets and biological assets ("specified non-current assets"). The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, lease prepayments and biological assets, and the location of the operation to which they are allocated, in the case of intangible assets.

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Specified non-current assets			
The PRC	268,312	433,225	563,406
Peru	36	100,911	105,988
USA	—	—	71
	268,348	534,136	669,465

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10 Investments in subsidiaries

Investments in subsidiaries are stated at cost and details of the subsidiaries as at December 31, 2008, 2009 and 2010 are set out in Section A.

Disposal of subsidiaries

On December 9, 2010, Wood Flooring entered into an equity disposal agreement with Jumbo Hawk Immigration Consultancy Limited (the "Buyer"), an independent third party, to dispose of its entire equity interests in Asia Hero to the Buyer for a consideration of HKD48,000,000 (equivalent to RMB41,189,000 at the date of agreement). Asia Hero held the entire equity interests in Hailin Yingtai. The principal activity of Hailin Yingtai was manufacturing and sales of wood flooring. The transaction was completed on December 10, 2010.

	Net book value as of the disposal date
	RMB'000
Cash and cash equivalents	19,631
Trade and other receivables	378
Inventories	2,168
Property, plant and equipment	26,283
Deferred tax assets	1,627
Trade and other payables	(8,666)
Net identifiable assets	41,421
Consideration received, satisfied in cash	(41,189)
Loss on disposal (note 3(b))	232
Consideration received	41,189
Cash disposed of	(19,631)
Net cash inflow	21,558

11 Investments in equity securities

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Equity securities	—	—	15,200

During the year ended December 31, 2010, the Group invested in the following unlisted PRC incorporated entities:

Name of company	Place and date of establishment	Authorized capital/ paid-up capital	Direct equity interest	Principal activities
Liaoning Tai'an Yingfu Xinsheng Flooring Co., Ltd. 遼寧台安盈福新盛地板有限公司*	the PRC July 14, 2010	RMB40,000,000/ RMB40,000,000	19%	Manufacturing and trading of wood flooring
Hubei Xiangfan Yingfu Xinsheng Flooring Co., Ltd. 湖北襄樊盈福新盛地板有限公司*	the PRC July 15, 2010	RMB40,000,000/ RMB40,000,000	19%	Manufacturing and trading of wood flooring

* The English translation of these companies' names is for reference only.

12 Property, plant and equipment

	Buildings & plant	Machinery & equipment	Motor vehicles	Office equipment & furniture	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At January 1, 2008	—	29,555	3,455	4,310	41,982	79,302
Additions	19,291	46,800	2,206	2,350	77,461	148,108
Transfer from construction in progress	49,870	23,386	—	—	(73,256)	—
Disposals	—	(6,231)	(669)	(6)	—	(6,906)
At December 31, 2008	69,161	93,510	4,992	6,654	46,187	220,504
At January 1, 2009	69,161	93,510	4,992	6,654	46,187	220,504
Additions	243	17,798	1,323	2,262	164,561	186,187
Transfer from construction in progress	65,266	115,747	785	162	(181,960)	—
Disposals	—	(7,178)	(150)	(2,180)	—	(9,508)
At December 31, 2009	134,670	219,877	6,950	6,898	28,788	397,183
At January 1, 2010	134,670	219,877	6,950	6,898	28,788	397,183
Additions	1,058	9,762	13,696	717	17,016	42,249
Transfer from construction in progress	31,756	6,476	—	—	(38,232)	—
Disposal of subsidiaries	(23,113)	(5,685)	(568)	(602)	—	(29,968)
Disposals	(88)	(2,338)	(418)	(879)	—	(3,723)
At December 31, 2010	144,283	228,092	19,660	6,134	7,572	405,741

	Buildings & plant	Machinery & equipment	Motor vehicles	Office equipment & furniture	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation:						
At January 1, 2008	—	(1,760)	(326)	(721)	—	(2,807)
Charge for the year	(1,770)	(4,659)	(740)	(1,371)	—	(8,540)
Disposals	—	866	179	2	—	1,047
At December 31, 2008	(1,770)	(5,553)	(887)	(2,090)	—	(10,300)
At January 1, 2009	(1,770)	(5,553)	(887)	(2,090)	—	(10,300)
Charge for the year	(2,222)	(12,465)	(1,038)	(880)	—	(16,605)
Exchange adjustments	—	—	—	(1)	—	(1)
Disposals	—	1,008	40	44	—	1,092
At December 31, 2009	(3,992)	(17,010)	(1,885)	(2,927)	—	(25,814)
At January 1, 2010	(3,992)	(17,010)	(1,885)	(2,927)	—	(25,814)
Charge for the year	(5,194)	(21,236)	(2,510)	(1,162)	—	(30,102)
Exchange adjustments	—	—	—	(1)	—	(1)
Disposal of subsidiaries	1,757	1,354	312	262	—	3,685
Disposals	1	325	273	852	—	1,451
At December 31, 2010	(7,428)	(36,567)	(3,810)	(2,976)	—	(50,781)
Carrying amounts:						
At December 31, 2008	67,391	87,957	4,105	4,564	46,187	210,204
At December 31, 2009	130,678	202,867	5,065	3,971	28,788	371,369
At December 31, 2010	136,855	191,525	15,850	3,158	7,572	354,960

The Group's buildings are located in the PRC. All of the Group's property, plant and equipment are located in the PRC (including Hong Kong and Macau), except for property, plant and equipment with net carrying amount of RMB35,000, RMB53,000 and RMB11,309,000 as at December 31, 2008, 2009 and 2010 respectively are located in Peru.

As at December 31, 2008, 2009 and 2010, property, plant and equipment with net carrying amount of RMB108,208,000, RMB117,295,000 and RMB102,918,000 respectively were pledged for loans and borrowings (note 21(b)).

As at December 31, 2008, the Group leases certain production plant and machinery under finance leases expiring within one year, the net book value of plant and machinery held under finance leases of the Group was RMB2,117,000. In 2009, such finance lease agreement was terminated and the relevant production line was returned to the lessor to settle the balance of finance lease payable (note 22).

13 Intangible assets

	Computer Software
	RMB'000
Cost:	
At December 31, 2008 and January 1, 2009	—
Additions	219
At December 31, 2009	219
At January 1, 2010	219
Additions	552
At December 31, 2010	771
Accumulated amortization:	
At December 31, 2008 and January 1, 2009	—
Charge for the year	54
At December 31, 2009	54
At January 1, 2010	54
Charge for the year	95
At December 31, 2010	149
Carrying amount:	
At December 31, 2008	—
At December 31, 2009	165
At December 31, 2010	622

Amortization of intangible assets is included in the administrative expenses.

14 Lease prepayments

	Land use rights
	RMB'000
Cost:	
At January 1, 2008	10,914
Additions	48,033
At December 31, 2008	58,947
At January 1, 2009	58,947
Additions	5,001
At December 31, 2009	63,948
At January 1, 2010	63,948
Additions	7,371
At December 31, 2010	71,319

	Land use rights
	RMB'000
Accumulated amortization:	
At January 1, 2008	64
Amortization for the year	739
At December 31, 2008	803
At January 1, 2009	803
Amortization for the year	1,391
At December 31, 2009	2,194
At January 1, 2010	2,194
Amortization for the year	1,453
At December 31, 2010	3,647
Carrying amounts:	
At December 31, 2008	58,144
At December 31, 2009	61,754
At December 31, 2010	67,672

Lease prepayments represent the Group's land use rights on leasehold land located in the PRC. At December 31, 2010, the remaining period of the land use rights ranges from 46 to 50 years.

As at December 31, 2008, 2009 and 2010, lease prepayments with carrying amount of RMB58,144,000, RMB12,563,000 and RMB22,314,000 respectively were pledged for loans and borrowings (note 21(b)).

Amortization of lease prepayments is included in cost of sales and the administrative expenses.

15 Biological assets

	Standing timber
	RMB'000
Balance at January 1, 2008, December 31, 2008 and January 1, 2009	—
Increase due to acquisitions	18,991
Change in fair value less estimated cost to sell	81,869
Effect of movements in exchange rate	(12)
Balance at December 31, 2009	100,848
Balance at January 1, 2010	100,848
Increase due to acquisitions	41,530
Net change in fair value less estimated cost to sell	106,798
Effect of movements in exchange rate	(2,965)
Balance at December 31, 2010	246,211

In 2009, the Group entered into an agreement with a third party vendor in Peru to acquire the concession rights (originally granted by the Peru Government) to harvest standing timber in 46,347 hectares of natural forest in Peru for 40 years up to 2045, at a consideration of USD2,781,000 (equivalent to RMB18,991,000). Upon completion of the acquisition of the concession rights, the Group has the rights to harvest timber in the forest subject to the submission of harvest plans to the local authority. The directors of the Company are of the opinion that the submission process is compliance procedure which does not deprive the control and ownership of the forestry assets.

In 2009, the Group entered into an agreement with a third party vendor in Yunnan to acquire the concession rights to harvest standing timber in 4,445 hectares of natural forest in Yunnan, for a period through the year 2060 or 2078, at a consideration of RMB41,530,000. Upon completion of the acquisition of the concession rights, the Group has the rights to harvest timber in the forest.

During the years ended December 31, 2009 and 2010, the Group did not harvest or sell any round logs.

The fair value of the standing timber as at December 31, 2009 and 2010 was valued by an independent valuation firm engaged by the Group, Pöyry (Beijing) Consulting Company Limited, Shanghai Branch ("Pöyry"). Pöyry has applied the net present value approach whereby projected future net cash flows, based on the international timber log prices, were discounted according to the harvest plans for the standing timber to provide a current market value of the biological assets. The discount rate adopted for the Peru and Yunnan forest is 12.0% and 11.5% respectively.

The discount rate used in the valuation of the standing timber at balance sheet date was determined by reference to discount rates of companies that carry out similar business activities, weighted average cost of capital analysis of various countries and the implied discount rate of forest transactions over a period of time and after considering the risks associated with operating a venture in Peru and Yunnan.

The principal valuation methodology and assumptions adopted are as follows:

- A stand-based approach was employed whereby the standing timber is scheduled to be harvested:
  - At or near their optimum economic rotation age in respect of the Chinese forest; and
  - Based on a sustainable forest management system in respect of the Peru forest.
- The cash flows are those arising from the current rotation of trees only. No account was taken of revenue or costs from re-establishment following harvest, or of land not yet planted;
- The cash flows do not take into account income taxation and finance costs;
- The cash flows have been prepared in real terms and have not therefore included inflationary effects;
- The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forest is not taken into account; and
- Costs are current average costs. No allowance has been made for cost improvements in future operations.

The Group is exposed to a number of risks related to its standing timber:

Regulatory and environmental risks

The Group is subject to laws and regulations in Peru and Yunnan in which it operates. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

Supply and demand risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of sawn timber. When possible the Group manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and other risks

The Group's standing timbers is exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

16 Inventories

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	93,072	141,572	72,246
Work in progress	38,802	56,533	45,129
Finished goods	80,871	134,091	148,688
Spare parts and consumables	6,110	6,817	13,573
	218,855	339,013	279,636

The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Carrying amount of inventories sold	542,251	605,242	1,121,229
Write-downs/(reversal of write-downs) of inventories	—	24,613	(7,750)
	542,251	629,855	1,113,479

As a result of sales of previously written-down inventories, a reversal of write-down of inventories was recognized in the year ended December 31, 2010.

17 Trade and other receivables

The Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade debtors	322,776	377,978	430,941
Bills receivable (note (i))	60	3,000	72,470
Less: allowance for doubtful debts (note 17(b))	(17,830)	(9,309)	(5,615)
	305,006	371,669	497,796
Deposits	1,591	8,013	1,081
Prepayments for purchase of raw materials	54,291	36,976	16,171
Prepayments for purchase of equipment	46,380	14,028	3,237
Prepayments for investment in equity securities (note (ii))	—	—	4,250
Value added tax recoverable	11,692	39,938	24,466
Other prepayments and receivables	4,683	9,141	20,534
	423,643	479,765	567,535

An analysis of current and non-current portion of trade and other receivables is as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Non-current	46,380	14,028	3,237
Current	377,263	465,737	564,298
	423,643	479,765	567,535

The Company

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries	535,514	540,752	641,089
Other prepayments and receivables	2,329	—	693
	537,843	540,752	641,782

All of the trade and other receivables (including amounts due from subsidiaries), apart from those classified as non-current portion, are expected to be recovered or recognized as expense within one year.

Note:

(i) As at December 31, 2010, certain bills receivables amounting to RMB18,500,000 have been pledged to banks as security in connection with certain banking facilities (note 21(b)(i)). No bills receivable was pledged to banks as at December 31, 2008 and 2009.

(ii) As at December 31, 2010, a prepayment of RMB4,250,000 was made by the Group for establishment of a PRC entity with registered capital of RMB25,000,000. The principal activities of the investee are trading of goods, provision of marketing and technical services. After the completion of the establishment on January 11, 2011, the Group holds 17% equity interests in the investee.

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	As at December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Current	202,349	300,080	422,593
Less than 3 months past due	52,020	28,384	67,161
More than 3 months but less than 12 months past due	50,637	43,205	8,042
Amounts past due	102,657	71,589	75,203
	305,006	371,669	497,796

Receivables that were past due mainly related to receivables in connection with the business activities of trademark and distribution network usage. Customers from trademark and distribution network usage fees manufacture and sell the products under the trademarks and distribution network owned by the Group. These customers are responsible for their own raw materials procurement and other costs incurred in the manufacturing processes. The Group charges them trademark and distribution network usage fees accordingly. Generally, these customers will collect the amounts from their customers before making settlement to the Group. The amounts past due were mainly resulted from this type of customers. Further details on the Group's credit policy are set out in note 27(a).

(b) Impairment loss of trade debtors and bills receivable

Impairment loss in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (note 1(o)(i)).

The movement in the allowance for doubtful debts during the Relevant Period, including both specific and collective loss components, is as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Balance at January 1,	—	17,830	9,309
Impairment loss recognized	17,830	9,187	3,212
Reversal of impairment loss recognized	—	(17,708)	(6,215)
Uncollectible amounts written off	—	—	(691)
Balance at December 31,	17,830	9,309	5,615

At December 31, 2008, 2009 and 2010, the Group's trade receivables of RMB129,297,000, RMB12,020,000 and RMB6,079,000 respectively were individually determined to be impaired. The individually impaired receivables related to customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB17,830,000, RMB9,309,000 and RMB5,615,000 as at December 31, 2008, 2009 and 2010 were recognized respectively. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	157,197	297,509	422,428
Less than 3 months past due	36,342	28,244	66,977
More than 3 months but less than 12 months past due	—	43,205	7,927
	36,342	71,449	74,904
	193,539	368,958	497,332

Receivables that were neither past due nor impaired relate to wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

18 Pledged deposits

As at December 31, 2008, 2009 and 2010, deposits of RMB17,543,000, RMB22,389,000 and RMB43,462,000 respectively were placed with banks as securities for the issuance of letter of credit for construction projects and purchase of raw materials.

19 Cash and cash equivalents

The Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash in hand	265	190	152
Deposits with banks and other financial institutions	103,868	183,801	297,500
Cash in transit	—	16,084	—
Cash and cash equivalents	104,133	200,075	297,652

Note: As at December 31, 2009, USD2,360,000 (equivalent to RMB16,084,000) of cash was being remitted to a subsidiary in the PRC through a financial institution. The cash was received by the subsidiary on January 4, 2010. Therefore, the cash being remitted was included in cash in transit as at December 31, 2009.

The Company

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	4,475	3	164

20 Trade and other payables

The Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade creditors	81,381	114,744	61,346
Bills payable	3,000	89,890	20,957
	84,381	204,634	82,303
Payables for purchase of property, plant and equipment	25,340	36,713	7,599
Advanced payments and deposits received from customers	10,385	11,794	38,474
Accrued staff costs	13,728	16,200	17,078
Value added tax, business tax and consumption tax payable	3,186	5,352	12,457
Advertising and promotion payable to dealers	524	—	—
Accrued professional fees	3,000	2,888	8,910
Others payables and accruals	7,764	5,487	26,566
Payables due to related parties (note 29(c))	2,021	—	—
Deferred income (note 20(i))	—	2,148	—
	150,329	285,216	193,387

The Company

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Others payables and accruals	3,466	5,575	84,480

(i) Deferred income consists of a deferred government grant. The grant from local government was conditional and the conditions would be fulfilled upon the completion of a research project. The grant was recognized as "other revenue" in 2010 as the conditions are fulfilled.

(ii) Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due within 1 month or on demand	47,722	88,061	60,666
Due after 1 month but within 3 months	24,118	94,815	14,293
Due after 3 months but within 6 months	8,292	20,270	4,279
Due after 6 months but within 12 months	4,249	1,488	3,065
	84,381	204,634	82,303

21 Loans and borrowings

The Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Convertible notes (note 21(a))	490,645	571,670	—
Bank loans (note 21(b))	15,000	93,817	286,939
	505,645	665,487	286,939

An analysis of current and non-current loans and borrowings is as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current	15,000	597,176	183,458
Non-current	490,645	68,311	103,481
	505,645	665,487	286,939

All of the non-current loans and borrowings are carried at amortized cost. None of the non-current loans and borrowings is expected to be settled within one year.

(a) Convertible notes

The Group and the Company

	Convertible notes
	RMB'000
Carrying amount of liability at January 1, 2008	—
Proceeds from issue of convertible notes	488,854
Transaction costs	(5,601)
Net proceeds	483,253
Amount classified as equity	(30,271)
Accreted interest	48,155
Exchange difference	(10,492)
Carrying amount of liability at December 31, 2008	490,645
Carrying amount of liability at January 1, 2009	490,645
Accreted interest	81,526
Exchange difference	(501)
Carrying amount of liability at December 31, 2009	571,670
Carrying amount of liability at January 1, 2010	571,670
Accreted interest	30,875
Exchange difference	(3,183)
Conversion of convertible notes to voting preference shares	(599,362)
Carrying amount of liability at December 31, 2010	—

The amount of the convertible notes classified as equity of RMB30,271,000 is net of attributable transaction costs of RMB350,000.

Pursuant to convertible note purchase agreements (the "Agreement"), the Company issued convertible notes (the "Notes") in the amount of USD70 million to new investors (the "Holders") in May 2008. Under the terms of the Agreement, the entire outstanding amount of convertible note is mandatory converted into voting preference shares if the Company's audited profit after tax for the years ended December 31, 2008 and 2009 is equal to or higher than RMB510,000,000 in aggregate. The initial conversion price is USD1.6667 per each voting preference share, subject to adjustment for, amongst other things, dividend distribution, subdivision, combination, share split, recapitalization or reclassification of voting preference shares.

The Notes will mature upon occurrence of any of the following events:

(a) if the Company's audited profit after tax for the years ended December 31, 2008 and 2009 is less than RMB510,000,000 in aggregate;

(b) if the Company's audited financial statements for the years ended December 31, 2007 and 2008 have not been delivered to the Holders by June 30, 2009;

(c) if the adjusted profit after tax (defined to be the audited profit after tax and after adjusting the interest expenses of the Notes) for the year ended December 31, 2008 is less than RMB180,000,000; or

(d) any other events of default as specified in the convertible note purchase agreement.

At any time within 30 days after the maturity of the Notes, the Holders may at their sole discretion elect to require the Company to redeem in whole or in part these Notes at a price that yields a total internal rate of return to the Holders of 12.5% on the amount of the Notes to be redeemed (the "Redemption Right") or at any time after the maturity of the Notes at the Holders' option to convert the then outstanding amount of the Notes into the voting preference shares.

The Company's audited profit after tax for the years ended December 31, 2008 and 2009 was determined to be less than RMB510,000,000 in aggregate and thus the Notes became redeemable and convertible at the option of the Holders. Except for this, no other event occurred that would result in the maturity of the Notes.

On June 30, 2010, the Holders fully converted the Notes into 41,999,999 voting preference shares in the Company. Along with the conversion, the capital reserve, together with the carrying amount of the liability component at the time of conversion, was transferred to preference share capital and share premium as consideration for the shares issued.

(b) Bank loans

The Group

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current:			
—secured (note (i))	—	25,506	55,719
—unsecured (note (ii))	15,000	—	127,739
	15,000	25,506	183,458
Non-current:			
—secured (note (i))	—	68,311	52,852
— unsecured (note (ii))	—	—	50,629
	—	68,311	103,481
	15,000	93,817	286,939

Notes:

(i) At each of the balance date, loans and borrowings were secured by the following assets of the Group:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment (note 12)	108,208	117,295	102,918
Lease prepayments (note 14)	58,144	12,563	22,314
Bills receivable (note 17)	—	—	18,500
	166,352	129,858	143,732

The above-mentioned secured loan facilities, totalling RMB205 million, RMB210 million and RMB109 million as at December 31, 2008, 2009 and 2010 respectively, were utilized to the extent of RMB Nil, RMB94 million and RMB109 million at December 31, 2008, 2009 and 2010 respectively. Unutilized secured loan facilities as at December 31, 2008, 2009 and 2010 amounted to RMB205 million, RMB116 million and RMB Nil respectively.

(ii) At December 31, 2008, bank loan amounted to RMB15,000,000 was guaranteed by a former related party, Guangdong Yingbin Nature Wood Co., Ltd. (note 29), Mr Se Hok Pan and Ms Un Son I.

At December 31, 2010, bank loans amounted to RMB178,368,000 were guaranteed by the Company, YS Nature, Mr Se Hok Pan and Ms Un Son I.

At December 31, 2010, a bank loan of RMB26,910,000 is subject to the fulfillment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). At December 31, 2010, none of the covenants relating to drawn down facilities had been breached.

Unutilized unsecured loan facilities as at December 31, 2008, 2009 and 2010 amounted to RMB Nil, RMB Nil and RMB390 million respectively.

22 Obligations under finance leases

At December 31, 2008, the Group had obligations under finance leases repayable as follows:

	Future minimum lease payment	Interest	Present value of minimum lease payments
	RMB'000	RMB'000	RMB'000
Within 1 year	2,600	(504)	2,096

The Group entered into a lease agreement for a production line with a lease term of nine years starting from May 1, 2006 to April 30, 2015 and accounted for it as a finance lease.

In 2008, the Group considered that this production line was not suitable for the Group's long-term development strategy and intended to terminate the lease agreement. So, the present value of future minimum lease payments has been classified as current liabilities.

In 2009, the finance lease agreement was terminated and the relevant production line was returned to the lessor to settle the balance of finance lease payable.

23 Share-based payments

		Years ended December 31,		
		2008	2009	2010
	Note	RMB'000	RMB'000	RMB'000
Share-based payment transactions				
—2008 Share option plan	(a)	2,210	6,338	2,894
—2010 Share option plan	(b)	—	—	5,097
		2,210	6,338	7,991

(a) The 2008 share option plan

The Company adopted a share option scheme on December 16, 2008 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at HKD1 (equivalent to RMB0.882 at the date of grant) consideration. Each option entitles the option holders to subscribe one ordinary share of the Company.

The vesting period of the share options is as follows:

(1) 10% of share options to be vested on December 31, 2008 ("Tranche 1");

(2) 10% of share options to be vested on December 31, 2009 ("Tranche 2");

(3) 20% of share options to be vested on December 31, 2010 ("Tranche 3");

(4) 30% of share options to be vested on December 31, 2011 ("Tranche 4"); and

(5) 30% of share options to be vested on December 31, 2012 ("Tranche 5").

According to the option agreement, the abovementioned share options are exercisable 18 months after the ● date up to December 16, 2018, i.e. the expiration date of the share option scheme. Employee leaving the Group before ● forfeits the option.

A total of 2,512,301 options were granted on December 17, 2008, including 188,764 options granted to key management and 2,323,537 options granted to senior employees. During the Relevant Period, 356,952 options were forfeited upon resignation of the employees.

No option was exercisable as at December 31, 2008, 2009 and 2010 and the weighted average remaining contractual life of the options outstanding as at December 31, 2008, 2009 and 2010 was 9.96 years, 8.96 years and 7.96 years respectively.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured by an independent valuer engaged by the Group, BMI Appraisals Limited ("BMI"), based on Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions:

	2008
Fair value at measurement date	
—Tranche 1 to 4	RMB7.62 per option
—Tranche 5	RMB8.00 per option
Grant date fair value of the Company's share	RMB15.97 per share
Exercise price	HKD23.45, equivalent to RMB20.68 per share at the date of grant
Expected volatility	59.10%
Nature of the share options	Call
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	1.348%
Early exercise behavior	Share price rises to 150% of the exercise price

The expected volatility was based on the historical volatilities of the share prices of the comparable companies.

Staff costs arising from share options granted recognized in the statement of comprehensive income during the years ended December 31, 2008, 2009 and 2010 amounted to RMB2,210,000, RMB6,338,000 and RMB2,894,000 respectively.

There were no market conditions associated with the share option grants.

(b) The 2010 share option plan

The Company adopted a share option scheme on July 1, 2010 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at HKD1 (equivalent to RMB0.8714 at the date of grant) consideration. Each option entitles the option holders to subscribe one ordinary share of the Company.

The vesting period of the share options is as follows:

(1) 20% of share options to be vested on December 31, 2010 ("Tranche 1");

(2) 20% of share options to be vested on December 31, 2011 ("Tranche 2");

(3) 30% of share options to be vested on December 31, 2012 ("Tranche 3"); and

(4) 30% of share options to be vested on December 31, 2013 ("Tranche 4");

According to the option agreement, the abovementioned share options are exercisable 18 months after ● up to June 30, 2020, i.e. the expiration date of the share option scheme. Employee leaving the Group before ● forfeits the option.

A total of 1,200,000 options were granted on July 1, 2010, including 850,000 options granted to key management and 350,000 options granted to senior employees. During the Relevant Period, no option was forfeited upon resignation of the employees.

No option was exercisable as at December 31, 2010 and the weighted average remaining contractual life of the options outstanding as at December 31, 2010 was 9.50 years.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The fair value of the share options granted is measured by BMI, based on Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions:

	2010
Fair value at measurement date	
—Tranche 1 to 3	RMB11.63 per option
—Tranche 4	RMB12.81 per option
Grant date fair value of the Company's share	RMB25.10 per share
Exercise price	HKD33.84, equivalent to RMB29.49 per share at the date of grant
Expected volatility	63.53%
Nature of the share options	Call
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	2.29%
Early exercise behavior	Share price rises to 150% of the exercise price

The expected volatility was based on the historical volatilities of the share prices of the comparable companies.

Staff costs arising from share options granted recognized in the statement of comprehensive income during the year ended December 31, 2010 amounted to RMB5,097,000.

There were no market conditions associated with the share option grants.

24 Income tax in the consolidated balance sheets

(a) Current taxation in the consolidated balance sheets represents:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At January 1,	—	5,571	6,275
Provision for PRC income tax (note 5(a))	7,386	15,554	45,595
Provision for Hong Kong Profits Tax (note 5(a))	—	—	294
Provision for income tax from subsidiaries in other jurisdictions (note 5(a))	3,154	1,360	1,620
Provision for PRC dividend withholding tax (note 5(a))	—	—	7,395
PRC income tax paid	(4,495)	(12,542)	(33,995)
Income tax paid by subsidiaries in other jurisdictions	(474)	(3,668)	(993)
PRC dividend withholding tax paid	—	—	(7,395)
At December 31,	5,571	6,275	18,796

(b) Deferred tax assets and liabilities recognized:

The components of deferred tax (assets)/liabilities recognized in the consolidated balance sheets and the movements during the Relevant Period are as follows:

	Write-downs of inventories	Impairment of receivables	Unused tax losses	Unrealized profit in inventories	Capitalized borrowing cost	Withholding tax on undistributed profits of subsidiaries	Change in fair value of biological assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at January 1, 2008 and December 31, 2008 . . .	—	—	—	—	—	—	—	—
Balance as at January 1, 2009	—	—	—	—	—	—	—	—
(Credited)/charged to profit or loss	(3,034)	(1,493)	(3,421)	(587)	716	21,122	7,980	21,283
Balance as at December 31, 2009 . . .	(3,034)	(1,493)	(3,421)	(587)	716	21,122	7,980	21,283
Balance as at January 1, 2010	(3,034)	(1,493)	(3,421)	(587)	716	21,122	7,980	21,283
Charged/(credited) to profit or loss	448	736	262	(1,277)	(86)	12,809	(4,241)	8,651
Disposal of subsidiaries (note 10)	—	—	1,627	—	—	—	—	1,627
Balance as at December 31, 2010 . . .	(2,586)	(757)	(1,532)	(1,864)	630	33,931	3,739	31,561

Deferred tax assets in respect of write-downs of inventories, impairment of receivables, unrealized profit in inventories and unused tax losses in aggregate of RMB2,309,000 and RMB2,987,000 have been recognized by Nature Flooring as at December 31, 2009 and 2010 respectively. In view of the trend of improving operating results of Nature Flooring, the directors of the Company are of the opinion that future taxable profits will be available against which the Group can utilize the related benefits.

(c) Reconciliation to the consolidated balance sheets

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Deferred tax assets recognized on the consolidated balance sheets	—	(8,535)	(6,739)
Deferred tax liabilities recognized on the consolidated balance sheets	—	29,818	38,300
	—	21,283	31,561

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(d) Deferred tax assets not recognized

	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Deductible temporary difference	21,011	5,400	713
Unused tax losses	22,290	11,026	19,737
	43,301	16,426	20,450

No deferred tax assets have been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilize the related benefits. As at December 31, 2010, unused tax losses of RMB1,343,000, RMB9,526,000 and RMB8,206,000, if unused, will expire by 2013, 2014 and 2015, respectively. Further, unused tax losses of RMB662,000 do not expire under current tax legislation.

(e) Deferred tax liabilities not recognized

At December 31, 2008, undistributed profits of the Group's subsidiaries incorporated in the PRC and Peru amounted to RMB164,159,000 and RMB14,048,000, respectively, for which no deferred income tax liabilities were recognized by the Group for the withholding income tax that would be payable upon the distribution of such unremitted earnings as management did not expect to pay out dividends arising from these subsidiaries in the foreseeable future. During the year ended December 31, 2009 and as a part of the continuing evaluation of the Group's dividend policy, management considered that it was no longer probable that the unremitted earnings will not be distributed in the foreseeable future, considering the economic recovery and the funding of the Group's business expansions. As such, deferred withholding income tax in the amount of RMB21,122,000 and RMB12,809,000 was provided and charged to profit or loss for the years ended December 31, 2009 and 2010, respectively. As at December 31, 2009 and 2010, deferred tax liabilities amounted to RMB8,784,000 and RMB3,226,000, respectively, were related to undistributed profits generated prior to 2009.

At December 31, 2008, the amounts of undistributed profits derived by the entities incorporated in the PRC and Peru are set out as follows:

	As at December 31, 2008
	RMB'000
PRC	
—undistributed profits prior to January 1, 2008	77,940
—undistributed profits since January 1, 2008	164,159
	242,099
Peru	14,048
	256,147

25 Share capital

The share capital in the consolidated balance sheet as at January 1, 2008 represented the aggregate amount of paid-in capital of the companies comprising the Group as at January 1, 2008. Pursuant to the Reorganization on May 8, 2008, the Company become the holding company of the Companies now comprising the Group. The authorized and issued share capital of the Company during the Relevant Period are as follows:

(a) Authorized share capital of the Company

The Company was incorporated on July 27, 2007 with an authorized share capital of USD50,000 divided into 50,000 ordinary shares of USD1 each. On May 7, 2008, the authorized share capital of the Company was subdivided into 50,000,000 ordinary shares of USD0.001 each. On May 8, 2008, the authorized share capital of the Company was increased to USD200,000 by the creation of a further 108,000,000 ordinary shares of USD0.001 each, the creation of 41,999,999 convertible preference shares of USD0.001 each and the creation of 1 special share of USD0.001 each. On May 21, 2008, the authorized share capital of the Company was increased to USD406,000 by the creation of a further 124,000,000 ordinary shares of USD0.001 each and the creation of 82,000,000 convertible preference shares of USD0.001 each.

(i) Ordinary shares

	Number of shares	Nominal value of shares
		USD'000
At January 1, 2008	50,000	50
Subdivision of each authorized ordinary share into 1,000 ordinary shares of USD0.001 each on May 7, 2008	49,950,000	—
Creation on May 8, 2008 of USD0.001 each	108,000,000	108
Creation on May 21, 2008 of USD0.001 each	124,000,000	124
At December 31, 2008, 2009 and 2010	282,000,000	282

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Convertible preference shares of USD0.001 each

	Voting preference shares	Non-voting preference shares	Total	Nominal value of shares
				USD'000
Creation on May 8, 2008	41,999,999	—	41,999,999	42
Creation on May 21, 2008	42,000,000	40,000,000	82,000,000	82
At December 31, 2008, 2009 and 2010	83,999,999	40,000,000	123,999,999	124

The voting preference shares can be converted into ordinary shares of the Company at the option of the holders at any time without payment of any additional consideration. The preference shares will automatically be converted into ordinary shares upon ●. The conversion ratio is 1:1, subject to adjustment for stock splits, stock dividends, combinations or other recapitalizations of the preference shares and ordinary shares. The holders of preference shares are entitled to receive a proportionate share of distribution of dividends with the holders of ordinary shares. The holders of voting preference shares are entitled to vote at the meeting of the Company, with voting right equals the number of ordinary shares which are convertible, whereas non-voting preference shares do not carry the right to vote. Preference shares rank prior to ordinary shares with regard to the Company's residual assets.

(b) Issued share capital of the Company

Pursuant to the Reorganization completed on May 8, 2008, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A above. The Financial Information has been prepared as if the Reorganization was completed at the beginning of the Relevant Period.

The Company was incorporated with 50,000 nil-paid ordinary shares at USD1 per share and the proceeds were paid by the shareholders in 2008. On May 8, 2008, the Company capitalized HKD81,709,000 (equivalent to RMB73,330,000) of its loans due to the Controlling Shareholders and issued 20,000,000 ordinary shares of USD0.001 each to the Controlling Shareholders at a price of HKD4.0850 (equivalent to RMB4.5518) per share. The excess of the shareholders loan over the nominal value of the ordinary shares of RMB73,190,000 was credited to share premium account.

(i) Ordinary shares

	Number of ordinary shares	Nominal value of fully paid ordinary shares	Nominal value of fully paid ordinary shares
		USD'000	RMB'000
At July 27, 2007 (date of incorporation) issue of ordinary shares of USD1 each	50,000	50	350
Subdivision of each issued share into 1,000 shares of USD0.001 each on May 7, 2008	49,950,000	—	—
Capitalization issued on May 7, 2008	20,000,000	20	140
At December 31, 2008, 2009 and 2010	70,000,000	70	490

(ii) Convertible preference shares

	Number of shares	Nominal value of shares	Nominal value of shares
		USD'000	RMB'000
At January 1, 2008, December 31, 2008 and 2009	—	—	—
Conversion of convertible note to preference shares (note 21(a))	41,999,999	42	285
At December 31, 2010	41,999,999	42	285

(iii) Special share

	Number of shares	Nominal value of shares	Nominal value of shares
		USD	RMB
Special share of USD0.001 each issued on May 8, 2008	1	0.001	0.007
At December 31, 2008, 2009 and 2010	1	0.001	0.007

The holder of special share is not entitled to dividends or to participate in the liquidation of the Company. The holder is entitled to vote on the "Reserved Matter" only. Reserved Matter refers to amendment of the Company charter documents, dissolution, liquidation, merger and restructuring or similar transactions of the Company, change in the total authorized number of directors on the board and adoption or change of dividend distribution policies of the Company. The holder of special share must present at a general meeting convened for the purpose of voting on a Reserved Matter. Upon the conversion of the voting preference shares, the Company shall have right to redeem and cancel the special share for a redemption price equal to the par value of the special share.

On May 8, 2008, one special share with a par value of USD0.001 was issued by the Company and fully paid by MS Flooring Holding Co., Ltd.

26 Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital	Share premium	Foreign currency translation reserve	Other reserves	(Accumulated losses)/ Retained earnings	Total equity
	RMB'000 (Note 25)	RMB'000 (Note 26(d))	RMB'000 (Note 26(b))	RMB'000 (Note 26(c))	RMB'000	RMB'000
Balance at January 1, 2008	350	—	—	—	—	350
Changes in equity for 2008						
Loss for the year	—	—	—	—	(56,455)	(56,455)
Other comprehensive loss	—	—	(9,940)	—	—	(9,940)
Total comprehensive loss	—	—	(9,940)	—	(56,455)	(66,395)
Arising from Reorganization (note 26(c)(iv))	—	—	—	355,230	—	355,230
Disposal of M.A. International (note 26(c)(iv))	—	—	—	(78)	—	(78)
Capitalization issue (note 25(b))	140	73,190	—	—	—	73,330
Equity component of convertible notes	—	—	—	30,271	—	30,271
Equity settled share-based payment transactions	—	—	—	2,210	—	2,210
Balance at December 31, 2008 and January 1, 2009	490	73,190	(9,940)	387,633	(56,455)	394,918
Changes in equity for 2009						
Loss for the year	—	—	—	—	(91,030)	(91,030)
Other comprehensive loss	—	—	(92)	—	—	(92)
Total comprehensive loss	—	—	(92)	—	(91,030)	(91,122)
Disposal of Yichun Nature (note 26(c)(iv))	—	—	—	(9,660)	—	(9,660)
Equity settled share-based payment transactions (note 23)	—	—	—	6,338	—	6,338
Balance at December 31, 2009 and January 1, 2010	490	73,190	(10,032)	384,311	(147,485)	300,474

	Share capital	Share premium	Foreign currency translation reserve	Other reserves	(Accumulated losses)/ Retained earnings	Total equity
	RMB'000 (Note 25)	RMB'000 (Note 26(d))	RMB'000 (Note 26(b))	RMB'000 (Note 26(c))	RMB'000	RMB'000
Changes in equity for 2010						
Profit for the period	—	—	—	—	195,400	195,400
Other comprehensive loss	—	—	(16,833)	—	—	(16,833)
Total comprehensive income	—	—	(16,833)	—	195,400	178,567
Conversion of convertible notes to preference shares (note 21(a))	285	629,348	—	(30,271)	—	599,362
Disposal of subsidiaries (note 26(c)(iv))	—	—	—	(27,494)	—	(27,494)
Dividends approved in respect of the previous years (note 26(g))	—	(200,619)	—	—	—	(200,619)
Equity settled share-based payment transactions (note 23)	—	—	—	7,991	—	7,991
Balance at December 31, 2010	775	501,919	(26,865)	334,537	47,915	858,281

(a) Statutory surplus reserve

		As at December 31,		
		2008	2009	2010
		RMB'000	RMB'000	RMB'000
Recorded by:				
PRC subsidiaries	(i)	53,851	78,241	118,641
Macau subsidiaries	(ii)	22	22	22
Peru subsidiaries	(iii)	—	10,490	10,490
		53,873	88,753	129,153

(i) According to the current PRC Company Law, the Group's entities in the PRC are required to transfer 10% of their profit after taxation to statutory surplus reserve until the surplus reserve balance reaches 50% of the registered capital. For the purpose of calculating the transfer to reserve, the profit after taxation shall be the amount determined based on the statutory financial statements prepared in accordance with PRC accounting standards. The transfer to this reserve has to be made before distribution of dividend by these entities.

Statutory surplus reserve can be used to make good previous years' losses, if any, and for capitalization issue provided that the balance after such issue is not less than 25% of the registered capital of the respective entities.

(ii) The Macau Commercial Code requires that a company should set aside a minimum of 25% of the company's profit after taxation to the legal reserve until the balance of the reserve reaches 50% of the company's capital. The reserve can be used to make good previous years' losses, if any, and for capitalization issue.

(iii) The Peru Corporation Law requires that a company should set aside a minimum of 10% of the company's profit after taxation to the legal reserve until the balance equal to 20% of the paid-in capital. The reserve can be used to offset future net losses.

(b) Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of operations with functional currencies other than the RMB presentation currency.

(c) Other reserves

Other reserves comprise the following:

The Group

		As at December 31,		
		2008	**2009**	**2010**
		RMB'000	**RMB'000**	**RMB'000**
Equity component of convertible notes	(i)	30,271	30,271	—
Equity settled share-based payment transactions	(ii)	2,210	8,548	16,539
Capital contributions	(iii)	596	596	596
Arising from Reorganization	(iv)	99	99	99
		33,176	39,514	17,234

The Company

		As at December 31,		
		2008	**2009**	**2010**
		RMB'000	**RMB'000**	**RMB'000**
Equity component of convertible notes	(i)	30,271	30,271	—
Equity settled share-based payment transactions	(ii)	2,210	8,548	16,539
Arising from Reorganization	(iv)	355,152	345,492	317,998
		387,633	384,311	334,537

(i) This represents the equity component of unexercised convertible notes recognized in accordance with the accounting policy adopted for convertible notes in note 1(h)(ii).

(ii) The share-based payment transactions represent the cumulative value of the equity-settled share options granted to employees recognized in accordance with the accounting policy adopted for share-based payments in note 1(p)(iii).

(iii) These represent property, plant and equipment contributed by Controlling Shareholders to the Group in prior years.

(iv) Pursuant to the reorganization, the Company became the holding company of the Group on May 8, 2008. The excess of the consolidated net assets represented by the shares acquired over the nominal value of shares issued by the Company in exchange under the reorganization was transferred to other reserves.

In the Group's consolidated balance sheets, the difference between (a) the nominal value of shares of the subsidiaries acquired and (b) the nominal value of the shares issued by the Company in exchange under the reorganization of the Group on May 8, 2008 was recognized in other reserves.

(d) Share premium

Under the Companies Law of the Cayman Islands, the funds in the Company's share premium account are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Pursuant to board meetings held on June 24, 2010 and December 9, 2010, dividends of RMB100,939,000 and RMB99,680,000 (note 26(g)) were declared and paid out from share premium account respectively.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, 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 comprises all components of equity.

In order to maintain or adjust the ratio, the Group may issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Current liabilities:			
Bills payable	3,000	89,890	20,957
Loans and borrowings	15,000	597,176	183,458
Obligations under finance leases	2,096	—	—
	20,096	687,066	204,415
Non-current liabilities:			
Loans and borrowings	490,645	68,311	103,481
Total debt	510,741	755,377	307,896
Less: Cash and cash equivalents	(104,133)	(200,075)	(297,652)
Pledged deposits	(17,543)	(22,389)	(43,462)
Adjusted net debt/(asset)	389,065	532,913	(33,218)
Total equity	368,881	597,117	1,342,267
Adjusted net debt-to-capital ratio	1.05	0.89	(0.02)

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(f) Distributability of reserves

The aggregate amount of reserves available for distribution to equity shareholders of the Company, at December 31, 2008, 2009 and 2010 were RMB371,887,000, RMB271,197,000 and RMB867,832,000 respectively.

(g) Dividends

(i) Dividends payable to ordinary shareholders of the Company attributable to the previous financial years, approved and paid during the year

	Years ended December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Dividend in respect of the previous years, approved and paid during the year	—	—	125,387

(ii) Dividends on preference shares issued by the Company

	Years ended December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Dividend in respect of the previous years, approved and paid during the year	—	—	75,232

(iii) No dividend has been proposed by the Company after December 31, 2010.

27 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, currency risks, commodity price risk and natural risk arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer

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operates. Trade receivables are due within 30-180 days from the date of billing. Debtors with balances that are more than 12 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

The Group has a concentration of credit risk of the total trade receivables due from the Group's largest customer and the five largest customers as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Due from			
—largest customer	104,002	40,089	53,362
—five largest customers	167,283	149,236	180,397

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 17.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it maintains sufficient reserves of cash on demand and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted. The maximum banking facilities and amounts utilized at the balance sheet dates are disclosed in note 21(b).

Timber prices are constantly affected by both demand and supply cycles of the timber industry. As a result, the movements of the prices would have significant impact on the Group's earnings and valuation of biological assets as well as cash flows and liquidity. Whilst efforts have been made to implement certain strategies, there can be no assurance that the Group will be fully shielded from negative effects resulting from cyclical movements of timber prices.

The following tables show the remaining contractual maturities at the balance sheet dates of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

The Group

At December 31, 2008	Carrying amount	Contractual cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	505,645	619,272	16,053	603,219	—
Obligations under finance leases	2,096	2,600	2,600	—	—
Trade and other payables	150,329	150,329	150,329	—	—
	658,070	772,201	168,982	603,219	—

At December 31, 2009	Carrying amount	Contractual cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	665,487	699,946	629,133	21,244	49,569
Trade and other payables	285,216	285,216	285,216	—	—
	950,703	985,162	914,349	21,244	49,569

At December 31, 2010	Carrying amount	Contractual cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	286,939	296,714	189,705	46,281	60,728
Trade and other payables	193,387	193,387	193,387	—	—
	480,326	490,101	383,092	46,281	60,728

The Company

At December 31, 2008	Carrying amount	Contractual cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	490,645	603,219	—	603,219	—
Other payables and accruals	3,466	3,466	3,466	—	—
	494,111	606,685	3,466	603,219	—

At December 31, 2009	Carrying amount	Contractual cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	571,670	602,654	602,654	—	—
Other payables and accruals	5,575	5,575	5,575	—	—
	577,245	608,229	608,229	—	—

At December 31, 2010	Carrying amount	Contractual cash flows	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other payables and accruals	84,480	84,480	84,480	—	—

(c) Interest rate risk

The Group's interest rate risk arises primarily from deposits with banks and other financial institutions, short term and long term borrowings issued at variable rates and fixed rates that expose the Group to cash flow interest rate risk. Loans and borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk, respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings and deposits at balance sheet dates:

	December 31, 2008		December 31, 2009		December 31, 2010	
	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount	Effective interest rate	Carrying amount
	%	RMB'000	%	RMB'000	%	RMB'000
Variable rate instruments						
Deposit with banks and other financial institutions	0.36%	103,868	0.36%	183,801	0.36%	297,500
Pledged deposits	0.36%	17,543	0.36%	22,389	0.36%	43,462
Bank loans	7.02%	(15,000)	3.25% + LIBOR	(88,817)	2.59% (+0.59%) +HIBOR/3.25%+ LIBOR	(228,439)
		106,411		117,373		112,523
Fixed rate instruments						
Bank loans	—	—	5.103%	(5,000)	5.103%	(58,500)
Convertible notes	16.03% ~ 16.86%*	(490,645)	16.03% ~ 16.86%*	(571,670)	—	—
Obligations under finance lease	6.39%	(2,096)	—	—	—	—
		(492,741)		(576,670)		(58,500)
Fixed rate borrowings as a percentage of total borrowings		97%		87%		20%

* The liability component of the Notes was stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(ii) Sensitivity analysis

At December 31, 2008, 2009 and 2010, it is estimated that a general increase/(decrease) of 100 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax and retained profits as follows:

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
100 basis points increase	3,840	4,591	(107)

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualized impact on interest expense or income of such a change in interest rates.

(d) Currency risk

The Group's principal activities are carried out in the PRC. RMB is not freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

The Group is exposed to currency risk primarily arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. The currencies giving rise to this risk are primarily USD, Hong Kong Dollars ("HKD"), Macau Pataca ("MOP"), Peruvian Nuevo Sol ("PEN"), Euro ("EUR") and Japanese yen ("JPY"). Nearly all sales and purchases are denominated in functional currency of the entity to which they relate. In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensure that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB translated using the spot rate at the yearend date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

The Group

	Exposure to foreign currencies													
	December 31, 2008				December 31, 2009				December 31, 2010					
	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	EUR RMB'000	JPY RMB'000
Cash and cash equivalents	—	19,841	909	—	—	20,491	522	3,105	106	11,875	2,832	99	784	—
Trade and other receivables	—	75,550	12,706	—	—	6,794	12,056	2,831	693	45,491	10,240	488	—	—
Trade and other payables	(4)	(33,346)	(5,981)	—	—	(1,946)	(440)	(118)	(5,000)	(3,872)	(248)	(197)	—	—
Loans and borrowings	—	—	—	—	—	(88,767)	—	—	—	(147,865)	—	—	(889)	(296)
Gross exposure arising from recognized assets and liabilities	(4)	62,045	7,634	—	—	(63,428)	12,138	5,818	(4,201)	(94,281)	12,824	390	(105)	(296)

The Company

	Exposure to foreign currencies													
	December 31, 2008				December 31, 2009				December 31, 2010					
	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	HKD RMB'000	USD RMB'000	PEN RMB'000	MOP RMB'000	EUR RMB'000	JPY RMB'000
Cash and cash equivalents	—	—	—	—	—	—	—	—	106	—	—	—	—	—
Other receivables	537,843	—	—	—	540,752	—	—	—	641,782	—	—	—	—	—
Other payables	(3,466)	—	—	—	(5,575)	—	—	—	(84,480)	—	—	—	—	—
Gross exposure arising from recognized assets and liabilities	534,377	—	—	—	535,177	—	—	—	557,408	—	—	—	—	—

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other variables, in particular interest rates, remain constant.

The Group

	December 31, 2008			December 31, 2009			December 31, 2010		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity
		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
HKD . .	0.15%	—	—	3.35%	—	—	0.50%	21	21
HKD . .	(0.15)%	—	—	(3.35%)	—	—	(0.50%)	(21)	(21)
USD . . .	0.10%	62	55	3.00%	(1,902)	295	0.45%	(424)	(117)
USD . . .	(0.10)%	(62)	(55)	(3.00%)	1,902	(295)	(0.45%)	424	117
PEN . . .	8.00%	610	610	0.40%	49	49	0.70%	90	90
PEN . . .	(8.00)%	(610)	(610)	(0.40%)	(49)	(49)	(0.70%)	(90)	(90)
MOP . .	0.10%	—	—	3.40%	198	198	0.60%	2	2
MOP . .	(0.10)%	—	—	(3.40%)	(198)	(198)	(0.60%)	(2)	(2)
EUR . . .	—	—	—	—	—	—	2.75%	(3)	(3)
EUR . . .	—	—	—	—	—	—	(2.75%)	3	3
JPY . . .	—	—	—	—	—	—	2.05%	6	6
JPY . . .	—	—	—	—	—	—	(2.05%)	(6)	(6)

The Company

	December 31, 2008			December 31, 2009			September 31, 2010		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits	Effect on other components of equity
		RMB'000	RMB'000		RMB'000	RMB'000		RMB'000	RMB'000
HKD . .	0.15%	788	788	3.35%	17,930	17,930	0.50%	2,817	2,817
HKD . .	(0.15)%	(788)	(788)	(3.35%)	(17,930)	(17,930)	(0.50%)	(2,817)	(2,817)

(e) Commodity price risk

Various wood cores and sawn timber are the major materials of the Group's products which amounted for more than 85% of total cost of sales. Fluctuation on commodity price of wood cores and sawn timber will have significant impact on the Group's earnings, cash flows as well as the value of inventories. The Group minimizes the cost of materials by bulk purchase of major raw materials and acquisition of natural resources. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(f) Natural risk

The condition of the Group's biological assets may be affected by unfavorable local weather conditions and natural disasters. Weather conditions such as floods, droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The occurrence of severe weather conditions or natural disasters may diminish the value of the biological assets.

(g) Fair value

The carrying amounts of all current financial assets and liabilities are not materially difference from their fair values as at December 31, 2008, 2009 and 2010.

(h) Estimation of fair value

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Trade and other receivables

Trade receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

(ii) Loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) Equity-settled share-based payment transactions

The fair value of employee share options is measured using a binomial option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to public available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), and the risk-free interest rate (based on Hong Kong Exchange Fund Notes). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(iv) Biological assets

The fair value of standing timber above minimum cutting diameter at which it becomes marketable, is based on the present value of net cash flows expected to be generated from the estimated recoverable wood volume, net of harvesting costs and costs of transportation of the assets to market, discounted at a current market determined pre-tax rate.

(v) Interest rate used for determining fair value

The market interest rates adopted for determining the fair value of convertible notes, interest-bearing loans and trade and other receivables are ranging from 3.00% to 16.86%, 3.00% to 16.86% and 2.59% to 16.86% as at December 31, 2008, 2009 and 2010.

28 Commitments and contingent liabilities

(a) Capital commitments

Capital commitments outstanding at the balance sheet date not provided for in the Financial Information were as follows:

	As at December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Contracted for	78,007	12,834	1,250
Authorized but not contracted	—	112,166	32,048

(b) Operating lease commitments

The Group leases properties and production equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At balance sheet dates, the future minimum lease payments under operating leases are as follows:

	As at December 31,		
	2008	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**
Within 1 year	3,328	2,971	4,631
After 1 year but within 3 years	3,943	3,067	7,437
After 3 years but within 5 years	2,987	2,850	5,024
After 5 years	8,367	6,966	10,379
	18,625	15,854	27,471

The Group leases a number of machineries and factory facilities under operating leases. The leases typically run for an initial period of half a year to fourteen years, with an option to renew the lease when all terms are negotiated. None of the leases included contingent rentals.

29 Material related party transactions

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions.

During the Relevant Period, the directors are of the view that the following are related parties of the Group:

Name of Related Party	Relationship
Mr Se Hok Pan and Ms Un Son I	Controlling Shareholders
Guangdong Yingbin Nature Wood Co., Ltd. (廣東盈彬大自然木業有限公司*) ("Guangdong Yingbin")	A company owned by the close family member of the Controlling Shareholders**
Mudanjiang Nature Wood Co., Ltd. (牡丹江大自然木業有限公司*) ("Mudanjiang Nature")	A company owned by the close family member of the Controlling Shareholders***
She Jian Bin (佘建彬)	Executive director of the Company
She Zhuo Teng (佘卓騰)	Close family member of She Jian Bin

* The official names of these companies are in Chinese. The English translation of these companies' names is for reference only.

** Guangdong Yingbin was disposed of by the close family member of the Controlling Shareholders to an independent third party on March 5, 2008. Guangdong Yingbin no longer is a related party thereafter. The following disclosures of the related party transactions related to Guangdong Yingbin are for the period up to March 5, 2008.

*** Mudanjiang Nature was deregistered on October 15, 2009. The following disclosures of the related party transactions related to Mudanjiang Nature are for the period up to October 15, 2009.

(a) Recurring transactions

Sales of wood flooring products to related parties

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
She Zhuo Teng	2,165	1,146	1,882

(b) Non-recurring transactions

(i) Advance to related party

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Controlling shareholders	10,258	—	—

(ii) Repayment of advance from related parties

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Shareholders—cash repayment	93,745	2,166	—
Shareholders—capitalization issue	73,330	—	—
Guangdong Yingbin	11,500	—	—

(iii) At December 31, 2008, bank loan amounted to RMB15,000,000 was guaranteed by a former related party, Guangdong Yingbin Nature Wood Co., Ltd., Mr Se Hok Pan and Ms Un Son I.

At December 31, 2010, bank loan amounted to RMB178,368,000 was guaranteed by the Company, YS Nature, Mr Se Hok Pan and Ms Un Sun I.

(iv) Sales of wood flooring products to related parties

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Guangdong Yingbin	8,320	—	—
Mudanjiang Nature	7,237	—	—
	15,557	—	—

(v) Trademark and distribution network usage fees

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Guangdong Yingbin	5,797	—	—

(vi) Purchase of materials

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Guangdong Yingbin	4,061	—	—

The directors of the Company have confirmed that the terms of the above transactions are no less favorable to the Company than terms available to or from independent third parties.

The directors of the Company have confirmed that the above transactions, except as disclosed in note 29(a), will not be continued upon ●.

(c) Balances with related parties

As at the end of the balance sheet dates, the Group had the following balances with related parties:

Trade and other payables

	As at December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Controlling Shareholders	2,021	—	—

The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms.

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees, as disclosed in note 7, is as follows:

	Years ended December 31,		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	7,255	8,440	8,493
Post-employment benefits	4	7	7
Equity-settled share-based payment expenses	164	569	843
	7,423	9,016	9,343

Total compensation is included in "staff costs" (note 4(b)).

30 Subsequent events

Pursuant to the written resolution of the shareholders of the Company passed on May 3, 2011, the Company has conditionally adopted a Share Option Scheme. The principal terms of the Share Option Scheme are set out in "Share Option Scheme" of Appendix IX "Statutory and General Information — Share Option Schemes" to the Document.

31 Significant accounting judgments and estimates

The preparation of the Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The critical accounting judgments in applying the Group's accounting policies are described below:

(i) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(ii) Impairments

In considering the impairment losses that may be required for certain property, plant and equipment, lease prepayments, 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. The Group uses all readily available information in determining an amount that is 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 management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the above impairment losses would affect the new profit or loss in future periods.

(iii) Net realizable value of inventories

Net realizable value of inventories, in particular wood flooring products, is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycle. Management reassess these estimates at each balance sheet date.

(iv) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognized for unused tax losses and 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, management's judgment is required to assess the probability of future taxable profits. 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 asset to be recovered.

(v) Fair value of biological assets

The Group's biological assets are valued at fair value less estimated costs to sell. 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.

32 Possible impact of amendments, new standards and interpretations issued but not yet effective

Up to the date of issue of this report the IASB has issued the following amendments, new standards and Interpretations which are not yet effective of the financial periods included in the Relevant Period.

Of these developments, the following relate to matter that may be relevant to the Group's operations and the Financial Information:

	Effective for accounting periods beginning on or after
Improvements to IFRSs 2010	January 1, 2011
Revised IAS 24, Related party disclosures	January 1, 2011
Amendments to IFRIC 14, IAS 19—The limit on a defined benefit asset, minimum funding requirements and their interaction—Prepayments of a minimum funding requirement	January 1, 2011
Amendments to IFRS 7, Financial instruments: Disclosures—Transfers of financial assets	July 1, 2011
IFRS 9, Financial instruments (2009); Basis for conclusions on IFRS 9 (2009); and Amendments to other IFRSs and guidance on IFRS 9 (2009)	January 1, 2013
IFRS 9, Financial instruments (2010); Basis for conclusions on IFRS 9 (2010); and Implementation guidance on IFRS 9 (2010)	January 1, 2013

The directors of the Company have confirmed that the Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

D SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to December 31, 2010.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

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The forecast of the consolidated profit attributable to equity shareholders of our Company for the six months ending June 30, 2011 is set out in the paragraph headed "Financial information — Profit Forecast for Six Months Ending June 30, 2011" in this document.

(1) BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the consolidated profit attributable to equity shareholders of the Company for the six months ending June 30, 2011, based on the audited consolidated results of our Group for the year ended December 31, 2010, the unaudited consolidated results of the Group for the three months ended March 31, 2011 and a forecast of the consolidated results of our Group for the remaining three months ending June 30, 2011. The profit forecast has been prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Group as summarized in the Accountant's Report as set out in Appendix I to this document. The profit forecast has been prepared on the following principal assumptions:

(1) There will be no material change in the existing government policies or political, legal, fiscal, market or economic conditions in the PRC, Hong Kong, Macau and other countries in which the Group operates.

(2) There will be no material change in legislation or regulations or rules in the operating regions.

(3) There will be no material change in exchange rates and inflation rates during the Profit Forecast Period.

(4) There will be no material change in the tax base or rates of taxation applicable to the activities of the Group in the operating regions.

(5) There will be no material changes in the landscape of the China wood flooring industry in which the Group operates in and the conditions of the markets in which the Group operates. The Group's operations and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, supply failure, labor dispute, significant lawsuit and arbitration.

(6) The Group can substantially maintain the business relationship and substantially similar business terms with its major customers.

(7) The historical performance, historical trend of the distributors typically placing substantial orders in the last month of the quarter, contracts entered into with distributors, future development plans of the Group's business, the practice of the Group to settle receipts, as well as the forecast sales amount will be maintained.

(8) ●

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The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at March 31, 2011 of the properties located in the PRC, Hong Kong, Macau and Peru.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

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香港灣仔港灣道6-8號瑞安中心33樓
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The Directors

China Flooring Holding Company Limited
Unit 3401, 34/F
West Tower, Shun Tak Centre
Nos. 168-200 Connaught Road Central
Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from China Flooring Holding Company Limited (the "Company") for us to value the properties held or leased or occupied by the Company and / or its subsidiaries (together referred to as the "Group") located in the People's Republic of China (the "PRC"), Hong Kong, Macau and the Republic of Peru ("Peru"). We confirm that we have performed inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at March 31, 2011 (the "date of valuation").

BASIS OF VALUATION

Our valuations of the concerned properties have been based on the Market Value, which is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

PROPERTY CATEGORIZATION

In the course of our valuations, the portfolio of properties of the Group is categorized into the following groups:-

Group I — Property partly held and occupied and partly leased by the Group in the PRC

Group II — Properties held and occupied by the Group in the PRC

Group III — Properties leased by the Group in the PRC

Group IV — Property leased by the Group in Hong Kong

Group V — Property leased by the Group in Macau

Group VI — Properties leased by the Group in Peru

Group VII — Properties occupied by the Group under concession rights in Peru

VALUATION METHODOLOGIES

For Property Nos. 1 to 4, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc.; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement". This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market. This opinion of value does not necessarily represent the amount that might be realized from the disposition of the subject asset in the market and is subject to adequate profitability of the business compared to the value of the total assets employed.

We have valued Property Nos. 5 to 14 in Group II on market basis by the Comparison Approach assuming sale in their existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the market. Appropriate adjustments have been made to account for the differences between the properties and the comparables in terms of time, floor level, size and other relevant factors.

We have attributed no commercial value to the properties in Groups III to VII due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

TITLE INVESTIGATION

We have been provided with copies of title documents / tenancy agreements and have been advised by the Group that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. In the course of our valuations, we have relied upon the advice given by the Group's PRC legal advisor — Haiwen & Partners and the Group's Peru legal advisor — Muñiz, Ramírez, Pérez-Taiman & Olaya regarding the title of the properties located in the PRC and Peru. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the properties are sold in the market in their existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement of any other similar arrangement which might serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing the properties, we have relied on the advice given by the Group that the Group has valid and enforceable titles to the properties which are freely transferable, and have free and uninterrupted rights to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent / land use fees and all requisite land premium / purchase consideration payable have been fully settled.

VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been made nor have any tests been carried out on any of the services provided in the properties. We are, therefore, unable to report that the properties are free from rot, infestation or any other structural defects.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site / floor areas, identification of the properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site / floor areas in respect of the properties but have assumed that the site / floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the requirements contained in ●.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfers.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng
BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ), MHKIS, MCIArb, AFA, SIFM, FCIM, MASCE, MIET, MIEEE, MASME, MIIE
Managing Director

Joannau W. F. Chan
BSc., MSc., MRICS, MHKIS, RPS(GP)
Senior Director

Notes:

Dr. Tony C.H. Cheng is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong and the People's Republic of China and over 6 years' experience in valuations of properties in Macau and Peru.

Ms. Joannau W.F. Chan is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong and over 12 years' experience in valuations of properties in the People's Republic of China.

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SUMMARY OF VALUES

No.	Property	Market Value in existing state as at March 31, 2011
		RMB
	Group I — Property partly held and occupied and partly leased by the Group in the PRC	
1.	An industrial complex located at No. 3 Shunchang Road, Daliang Street, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道順昌路3號之一個工業廠區	27,300,000
	Sub-total:	**27,300,000**
	Group II — Properties held and occupied by the Group in the PRC	
2.	An industrial complex located at No. 218 Shuguang Road, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 位於中國江蘇省昆山市澱山湖鎮曙光路218號之一個工業廠區	33,600,000
3.	An industrial complex (Land Parcel No. 7002013) located at Xiangnan Road, Dongshan Village, Jingang Town, Zhangjiagang City, Jiangsu Province, The PRC 位於中國江蘇省張家港市金港鎮東山村香南路之一個工業廠區(地號: 7002013)	58,240,000
4.	An industrial complex located at No. 28 Futian Road, Shangrao Economic Development Zone, Shangrao City, Jiangxi Province, The PRC 位於中國江西省上饒市上饒經濟開發區福田大道28號之一個工業廠區	102,000,000

No.	Property	Market Value in existing state as at March 31, 2011 RMB
5.	Forest (Compartment: 95; Sub-compartment: 18) located at Dijiuzu Ajiaoyede, Zhanhe Village, Zhanhe Township, Yunnan Province, The PRC 位於中國雲南省戰河鄉戰河村第九組阿角也得的森林 (林班: 95; 小班: 18)	820,000
6.	Forest located at Sahlihe Village, Xichuan Township, Yunnan Province, The PRC 位於中國雲南省西川鄉沙力河村的森林	3,310,000
7.	Forest located at Xibuhe Village, Xibuhe Township, Yunnan Province, The PRC 位於中國雲南省西布河鄉西布河村的森林	6,100,000
8.	Forest located at Er Village, Paomaping Township, Yunnan Province, The PRC 位於中國雲南省跑馬坪鄉二村的森林	2,270,000
9.	Forest (Compartment: 106 107: Sub-compartment: 3 1 7) located at Hanjiahan Village, Zhanhe Township, Yunnan Province, The PRC 位於中國雲南省戰河鄉漢家廠村的森林 (林班: 106 107; 小班: 3 1 7)	740,000
10.	Forest (Compartment: 144.145; Sub-compartment: (3,4) (2,3)) located at Erlaba Village, Lannijing Township, Yunnan Province, The PRC 位於中國雲南省爛泥菁鄉二拉壩村的森林 (林班: 144.145; 小班: (3,4) (2,3))	1,420,000
11.	Forest (Compartment: 105, 106; Sub-compartment: 2, 2-4 respectively) located at Jiema Village, Xichuan Township, Yunnan Province, The PRC 位於中國雲南省西川鄉界馬村的森林 (分別為林班: 105, 106; 小班: 2, 2-4)	920,000

No.	Property	Market Value in existing state as at March 31, 2011
		RMB
12.	Forest (Compartment: 51; Sub-compartment: 6-7-9-10-12-13-15-16) located at Zhushan Village, Xichuan Township, Yunnan Province, The PRC 位於中國雲南省西川鄉竹山村的森林 (林班: 51; 小班: 6-7-9-10-12-13-15-16)	940,000
13.	Forest located at Daigou Village, Xibuhe Township, Yunnan Province, The PRC 位於中國雲南省西布河鄉大溝村的森林	1,780,000
14.	Forest located at Jinzigou Village, Hongqiao Township, Yunnan Province, The PRC 位於中國雲南省紅橋鄉金子溝村的森林	3,890,000
	Sub-total:	**216,030,000**

Group III — Properties leased by the Group in the PRC

No.	Property	Market Value
15.	Warehouse No. A11, Jijiamiao Nanli (inside the courtyard of Tian Heng Company), Fengtai District, Beijing, The PRC 中國北京市豐台區紀家廟南里（天恒公司院內）A11號庫房	No Commercial Value
16.	A residential unit on Level 3, No. 35 Xiangshan Street, Nansha Village, Jingang Town, Zhangjiagang City, Jiangsu Province, The PRC 中國江蘇省張家港市金港鎮南沙村香山大街35號三層之一個住宅單位	No Commercial Value
17.	Level 3, No. 59 Zhongxingnan Road, Jingang Town, Zhangjiagang City, Jiangsu Province, The PRC 中國江蘇省張家港市金港鎮中興南路59號第三層	No Commercial Value

No.	Property	Market Value in existing state as at March 31, 2011
		RMB
18.	Level 2, Block 1, Fuyuannong, the western side of Dongshannan Road, Nansha Town, Zhangjiagang City, Jiangsu Province, The PRC 中國江蘇省張家港市南沙鎮東山南路西側富園弄一幢第二層	No Commercial Value
19.	Unit 302, Building No. 12, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮澱新新村12號樓302室	No Commercial Value
20.	Unit 401, Building No. 16, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮澱新新村16號樓401室	No Commercial Value
21.	Unit 401, Building No. 21, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮澱新新村21號樓401室	No Commercial Value
22.	Unit 101, Building No. 23, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮澱新新村23號樓101室	No Commercial Value
23.	Unit 102, Building No. 23, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮澱新新村23號樓102室	No Commercial Value

No.	Property	Market Value in existing state as at March 31, 2011
		RMB
24.	Unit 401, No. 115 Zhongshi Road, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮中市路115號401室	No Commercial Value
25.	Building No. 81, Fuqian Road, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮府前路81號樓	No Commercial Value
26.	An industrial building located at the western side of Xindabiao Tongye Company Limited and the northern side of Shanghong Road, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮上洪路北面及新達標銅業有限公司西側之廠房	No Commercial Value
27.	Warehouse No. A2-4, No. 1339 Jindu Road, Minxing District, Shanghai, The PRC 中國上海市閔行區金都路1339號A2-4號倉庫	No Commercial Value
28.	An industrial complex located at No. 1 Industrial District, Nanwen Community, Dachong Town, Zhongshan City, Guangdong Province, The PRC 位於中國廣東省中山市大湧鎮南文社區第一工業區之一個工業廠區	No Commercial Value
29.	An industrial building located at Xingchong Road and its junction of Makeng Road, Dachong Town, Zhongshan City, Guangdong Province, The PRC 位於中國廣東省中山市大湧鎮興湧路及其與馬坑路交匯處之一棟工業大樓	No Commercial Value

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No.	Property	Market Value in existing state as at March 31, 2011 RMB
30.	2 industrial buildings located at No. 8 Longpan West Road, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區龍盤西路8號之2棟工業大樓	No Commercial Value
31.	26 residential units on Levels 1 to 6, No. 2 Shunheng Road, Wusha Residential Committee, Galiang Street Office, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道辦事處五沙居委會順恒路2號一層至六層之26個住宅單位	No Commercial Value
32.	26 residential units on Levels 1 to 6, Land Parcel No. 36-6, Demolition and Move Arrangement Zone, Wusha Residential Committee, Galiang Street Office, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道辦事處五沙居委會拆遷安置區36-6號地一層至六層之26個住宅單位	No Commercial Value
33.	A warehouse located at Hui Yuan, Fourth Group, Houjia Village, Jinniu Township, Chengdu City, Sichuan Province, The PRC 位於中國四川省成都市金牛鄉侯家村四組惠園之一個倉庫	No Commercial Value
34.	A building located at No. 143 Wenmiao Lane, Dayan Street and Beimen Street, Gucheng District, Lijiang City, Yunnan Province, The PRC 位於中國雲南省麗江市古城區大研街道北門街文廟巷143號之一棟大樓	No Commercial Value

No.	Property	Market Value in existing state as at March 31, 2011 RMB
35.	50 residential units located at Nos. 17 and 18, Third Lane, Sixth Road, Dawei Village, Fuyou Residential Committee, Galiang Street Office, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道辦事處府又居委會大圍村六街三巷17及18號之50個住宅單位	No Commercial Value
36.	29 residential units located at No. 8, Tenth Lane, Fifth Road, Dawei Village, Fuyou Residential Committee, Galiang Street Office, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道辦事處府又居委會大圍村五街十巷8號之29個住宅單位]	No Commercial Value
37.	Block 3 Factory Building, No. 10 Industrial District, Shunchang Road, Daliang Wusha, Shunde District, Foshan City, Guangdong Province, The PRC 中國廣東省佛山市順德區大良五沙順昌路10號廠區第三座廠房	No Commercial Value
38.	A residential unit located at Kuilang Industrial District, Dachong Town, Zhongshan City, Guangdong Province, The PRC 位於中國廣東省中山市大湧鎮葵朗工業區之[一個住宅單位]	No Commercial Value
39.	A factory building located at Zhongshan City Lesida Color Printing and Packaging Company Limited, Shangren Road, Dachong Town, Zhongshan City, Guangdong Province, The PRC 位於中國廣東省中山市大湧鎮尚仁路段中山市樂斯達彩印包裝有限公司內之[一個廠房]	No Commercial Value

No.	Property	Market Value in existing state as at March 31, 2011
		RMB
40.	Two buildings located at No. 461 Chaoyang East Road, Daxing Town, Ninglang County, Lijiang City, Yunnan Province, The PRC 位於中國雲南省麗江市寧蒗縣大興鎮朝陽東路461號之兩幢樓宇	No Commercial Value
41.	A residential unit located at No. 7 Residential Building, Jingyuan House, Fenghuang Road, Xuri Town, Shangrao County, Shangrao City, Jiangxi Province, The PRC 位於中國江西省上饒市上饒縣旭日鎮鳳凰路景苑樓7號住宅樓之一個住宅單位	No Commercial Value
42.	A residential unit located at No. 1 Building, Yanjiang Road New Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 位於中國江蘇省昆山市澱山湖鎮沿江路新村1號樓之[一個住宅單位	No Commercial Value
	Sub-total:	**Nil**

Group IV — Property leased by the Group in Hong Kong

No.	Property	Market Value
43.	Unit 3401, 34/F., West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Sheung Wan, Hong Kong	No Commercial Value
	Sub-total:	**Nil**

Group V — Property leased by the Group in Macau

No.	Property	Market Value
44.	Alameda Dr. Carlos D'Assumpcao, No. 249, 13 Andar, L&M13 Edif., China Civic Plaza, Macau	No Commercial Value
	Sub-total:	**Nil**

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No.	Property	Market Value in existing state as at March 31, 2011
		RMB
	Group VI — Properties leased by the Group in Peru	
45.	Espintana Street, Manzana LL, Lote 11, AAHH, Maderos Loreto – Alto Amazonas, Yurimaguas, Peru	No Commercial Value
46.	Elmer Faucett Avenue, Km. Int. 6.4m, Madre de Dios, Tambopata, Peru	No Commercial Value
	Sub-total:	**Nil**
	Group VII — Properties occupied by the Group under concession rights in Peru	
47.	A parcel of land (under Concession No. 16-YUR/C-1-AD-001-05) located in the districts of Yurimaguas and Teniente César López Rojas, Province of Alto Amazonas, Department of Loreto, Peru	No Commercial Value
48.	A parcel of land (under Concession No. 16-YUR/C-1-AD-002-05) located in the district of Teniente César López Rojas, Province of Alto Amazonas, Department of Loreto, Peru	No Commercial Value
	Sub-total:	**Nil**
	Grand-total:	**243,330,000**

VALUATION CERTIFICATE

Group I — Property partly held and occupied and partly leased by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
1.	An industrial complex located at No. 3 Shunchang Road, Daliang Street, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道順昌路3號之一個工業廠區	The property comprises 2 parcels of land ("Land Parcel I" and "Land Parcel II") with a total site area of approximately 41,644.2 sq.m. and 9buildings and various ancillary structures completed in various stages between 2007 and 2009 erected thereon. The site areas of the land parcels are tabulated as below: **Land Parcel** / **Site Area** *(sq.m.)* I: 22,840.5 II: 18,803.7 **Total: 41,644.2** The total gross floor area ("GFA") of the buildings is approximately 16,055.93 sq.m. The buildings mainly include an office building, warehouses and factories. The structures mainly include roads, walls and a gate. The land use rights of Land Parcel I have been granted for a term of 50 years commencing on June 30, 2007 and expiring on June 29, 2057 for industrial use. Pursuant to a Land Lease Contract and a Building Lease Contract, the land use rights of Land Parcel II together with 2 buildings erected thereon with a total GFA of approximately 4,122 sq.m. were leased by the Group from an independent third party for industrial use for a term commencing on July 1, 2009 and expiring on December 31, 2026, at an annual rent of RMB444,307.5 from December 1, 2010 to June 30, 2013 and which shall be increased by 5% thereafter triennially, with a rent free period from July 1, 2009 to November 30, 2010.	The property is occupied by the Group for industrial purpose.	27,300,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract (國有土地使用權出讓合同) entered into between Foshan City State-owned Land Resources Bureau (佛山市國土資源局) and Foshan Shunde Yingran Nature Wood Industry Co., Ltd. (佛山市順德區盈然木業有限公司) ("Foshan Yingran") (now known as Guangdong Yingran Wood Industry Co., Ltd. (廣東盈然木業有限公司) ("Guangdong Yingran")), the land use rights of Land Parcel I with a site area of approximately 22,840.5 sq.m. were contracted to be granted to Foshan Yingran at a land premium of RMB4,568,100 for a term of 50 years for industrial use. The assignment of the land parcel is subject to the conditions that land premium of RMB200/sq.m. shall be given if the land is transferred within 5 years from September 7, 2007 or the requirement as stipulated in Schedule 1 of the relevant agreement has not been satisfied and Foshan Yingran shall have a minimum fixed asset investment of RMB32.68 million and an investment density of at least RMB14.3079 million/hectare.

2. Pursuant to a Real Estate Title Certificate (房地產權證), Yue Fang Di Quan Zheng Fo Zi No. 0300090906, dated January 18, 2010, the land use rights of Land Parcel I with a site area of 22,840.5 sq.m. and the building ownership rights of 7 buildings of the property with a total GFA of 11,933.93 sq.m. are legally vested in Guangdong Yingran. The land use rights of Land Parcel I have been granted for a term expiring on June 29, 2057 for industrial use.

3. The status of title and grant of major approvals and licences in accordance with the information provided by the Group is as follows:

State-owned Land Use Rights Grant Contract	Yes
Real Estate Title Certificate	Yes

4. In the valuation of this property, we have attributed no commercial value to Land Parcel II and the 2 buildings erected thereon with a total GFA of approximately 4,122 sq.m. due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

5. Pursuant to a Lease Contract, a portion of the property with a GFA of approximately 103 sq.m. is leased to Nature Flooring (China) Co., Ltd. (大自然地板(中國)有限公司) ("Nature China") for a term expiring on December 31, 2011 at a monthly rent of RMB669.5 exclusive of management fee, water and electricity charges.

6. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights and the building ownership rights of the property stated in Note 2 are legally vested in Guangdong Yingran;

   b. Guangdong Yingran has the rights to legally occupy, use, transfer and dispose of the land use rights and the building ownership rights of the property stated in Note 2 (except the assignment conditions regarding Land Parcel I);

   c. The Lease Contract stated in Note 5 is legal and valid; and

   d. The Land Lease Contract and Building Lease Contract are invalid and the lessor is not entitled to lease the land parcel and the buildings. The rights of Guangdong Yingran under the Land Lease Contract and Building Lease Contract are not protected by PRC laws.

7. Guangdong Yingran and Nature China are indirectly wholly-owned subsidiaries of the Company.

VALUATION CERTIFICATE

Group II — Properties held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
2.	An industrial complex located at No. 218 Shuguang Road, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 位於中國江蘇省昆山市澱山湖鎮曙光路218號之一個工業廠區	The property comprises a land parcel with a site area of approximately 40,463.5 sq.m. and 10 buildings and various ancillary structures completed in various stages between 2007 and 2008 erected thereon (the "completed property"). The total gross floor area ("GFA") of the buildings of the completed property is approximately 14,224.04 sq.m. The buildings mainly include offices, warehouses, factories and dormitories. The structures mainly include roads, walls and a gate. In addition to the completed property, the property also comprises a building which is under construction (the "CIP"). The planned GFA of the CIP will be approximately 9,629 sq.m. upon completion. The estimated total construction cost is approximately RMB6,440,000, of which approximately RMB4,080,000 had been paid up to the date of valuation. The construction work of the CIP is scheduled to be completed in 2011. The land use rights of the property have been granted for a term expiring on September 21, 2056 for industrial use.	The property is occupied by the Group for industrial purpose except the CIP is under construction.	33,600,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Kun Guo Yong (2007) No. 12007113048 issued by People's Government of Kunshan City dated July 27, 2007, the land use rights of the property with a site area of approximately 40,463.5 sq.m. have been granted to Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") for a term expiring on September 21, 2056 for industrial use.

2. Pursuant to 10 Building Ownership Certificates, the building ownership rights of 10 buildings of the completed property with a total GFA of approximately 14,224.04 sq.m. are legally owned by Kunshan Nature. The details of which are summarized in the table below:

No.	Certificate No.	Year of Completion	GFA *(sq.m.)*
1.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004080	December 2007	38.16
2.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004057	December 2007	352.56
3.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004090	December 2007	689.92
4.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004058	December 2007	2,037.96
5.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004081	December 2007	107.59
6.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004059	December 2007	8,217.36
7.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004082	December 2007	52.29
8.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004083	December 2007	59.04
9.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211004084	December 2007	290.16
10.	Kun Fang Quan Zheng Dian Shan Hu Zi Di No. 211005017	December 2008	2,379.00
		Total:	**14,224.04**

3. Pursuant to a Construction Land Use Planning Permit (建設用地規劃許可證), No. 2006-1373 issued by Kunshan City Planning Bureau (昆山市規劃局) dated December 25, 2006, Kunshan Nature was permitted to develop the land parcel of the property.

4. Pursuant to a Construction Works Planning Permit (建設工程規劃許可證), Jian Zi Di No. 20101004 issued by Kunshan City Planning Bureau (昆山市規劃局), Kunshan Nature was permitted to develop the CIP with a planned GFA of about 9,629 sq.m.

5. Pursuant to a Construction Works Commencement Permit (建築工程施工許可證), No. 3205832010070803 issued by Kunshan Residential and Urban & Rural Construction Bureau (昆山市住房和城鄉建設局), the construction work of the CIP with a planned GFA of approximately 9,629 sq.m. was permitted to commence.

6. The status of title and grant of major approvals and licences in accordance with the information provided by the Group is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificates	Yes
Construction Land Use Planning Permit	Yes
Construction Works Planning Permit	Yes
Construction Works Commencement Permit	Yes

7. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property and the building ownership rights of the 10 buildings of the completed property stated in Note 2 are subject to a mortgage in favour of International Finance Corporation (國際金融公司);

   b. The land use rights of the property and the building ownership rights of the 10 buildings of the completed property stated in Note 2 are legally vested in Kunshan Nature;

   c. Kunshan Nature has the rights to legally occupy, use, transfer and dispose of the land use rights of the property and the building ownership rights of the 10 buildings of the completed property stated in Note 2 (except the restriction in relation to the mortgage stated above); and

   d. Kunshan Nature has obtained requisite construction permits in respect of the construction of the CIP.

8. Kunshan Nature is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
3.	An industrial complex (Land Parcel No. 7002013) located at Xiangnan Road, Dongshan Village, Jingang Town, Zhangjiagang City, Jiangsu Province, The PRC 位於中國江蘇省張家港市金港鎮東山村香南路之一個工業廠區 (地號: 7002013)	The property comprises a land parcel with a site area of approximately 81,496 sq.m. and 14 buildings and various ancillary structures completed in various stages between 2006 and 2009 erected thereon. The total gross floor area ("GFA") of the buildings is approximately 25,797.07 sq.m. The buildings mainly include offices, warehouses, factories and dormitories. The structures mainly include roads, walls and a gate. The land use rights of the property have been granted for a term expiring on December 14, 2054 for industrial use.	The property is occupied by the Group for industrial purpose.	58,240,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Zhang Guo Yong (2008) No. 700005, the land use rights of the property with a site area of approximately 81,496 sq.m. have been granted to Nature (Zhangjiagang) Wood Industry Co., Ltd. (大自然(張家港)木業有限公司) ("Zhangjiagang Nature") for a term expiring on December 14, 2054 for industrial use.

2. Pursuant to 2 Building Ownership Certificates, Zhang Fang Quan Zheng Jin Zi Di Nos. 0000143176 and 0000207225, the building ownership rights of 3 buildings of the property with a total GFA of approximately 23,777.22 sq.m. are legally owned by Zhangjiagang Nature.

3. For the remaining 11 buildings of the property with a total GFA of approximately 2,019.85 sq.m., we have not been provided with any title certificates.

4. The status of title and grant of major approvals and licences in accordance with the information provided by the Group is as follows:

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificates	Yes (Part)

5. Pursuant to 2 Maximum Loan Amount Contracts both dated June 10, 2010, the land use rights of the property with a site area of 81,496 sq.m. and the building ownership rights of a building of the property stated in Note 2 with a GFA of about 11,350.85 sq.m. are subject to mortgages in favour of Industrial and Commercial Bank of China Limited, Foshan Shunde Branch (中國工商銀行股份有限公司佛山順德支行) for a total maximum loan amount of RMB46,840,178.

6. In the valuation of this property, we have attributed no commercial value to the buildings stated in Note 3 as relevant title certificates of the buildings have not been obtained. However, for your reference purposes, we are of the opinion that the depreciated replacement cost of the buildings (excluding the

land) as at the date of valuation would be in the sum of approximately RMB1,780,000 assuming all relevant title certificates have been obtained and the buildings could be freely transferred.

7. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property and the building ownership rights of the buildings stated in Note 2 are legally vested in Zhangjiagang Nature;

   b. Zhangjiagang Nature has the rights to legally occupy, use, transfer and dispose of the land use rights of the property and the building ownership rights of the buildings stated in Note 2 (except the restriction in relation to the mortgages stated in Note 5);

   c. As advised by the Group, the application for the title certificates for the buildings stated in Note 3 is being processed; and

   d. For the 11 buildings without title certificates, Zhangjiagang Nature may be subject to a risk of fine at 5% to 10% of the construction cost and the buildings may be ordered to demolish.

8. Zhangjiagang Nature is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
4.	An industrial complex located at No. 28 Futian Road, Shangrao Economic Development Zone, Shangrao City, Jiangxi Province, The PRC 位於中國江西省上饒市上饒經濟開發區福田大道28號之一個工業廠區	The property comprises 2 contiguous land parcels with a total site area of approximately 296,603.493 sq.m. and 4 buildings and various ancillary structures completed in various stages between 2009 and 2011 erected thereon. The total gross floor area ("GFA") of the buildings is approximately 62,275.16 sq.m. The buildings mainly include an office building and warehouses. The structures mainly include roads and walls. The land use rights of the property have been granted for terms expiring on August 20, 2053 and October 24, 2060 for industrial use.	The property is occupied by the Group for industrial purpose.	102,000,000

Notes:

1. Pursuant to a Land Transfer Contract (土地轉讓合同書) entered into between Jiangxi Hurao Xiedu Investment Company Limited (江西滬饒鞋都投資有限公司), Jiangxi Nature Wood Based Panels Co., Ltd. (江西大自然人造板有限公司) ("Jiangxi Nature") and Jiangxi Heji Investment Company Limited (江西和濟投資有限公司), the land use rights of a land parcel of the property with a site area of approximately 173,295.53 sq.m. were contracted to be transferred to Jiangxi Nature at a consideration of RMB16,636,288.

2. Pursuant to a State-owned Construction Land Use Rights Grant Contract (國有建設用地使用權出讓 合同), Contract No. 36201004030010K entered into between Shangrao City Land & Resources Bureau (上饒市國土資源局) and Jiangxi Yingran Wood Industry Co., Ltd. (江西盈然地板有限公司) ("Jiangxi Yingran"), the land use rights of a land parcel of the property with a site area of approximately 123,308 sq.m. were contracted to be granted to Jiangxi Yingran at a land premium of RMB11,890,000 for a term of 50 years for industrial use. The first assignment of the land parcel is subject to the conditions that Jiangxi Yingran shall use the land parcel for industrial construction with a minimum investment density of RMB1,500/sq.m. and Jiangxi Yingran shall complete at least 25% of the total development and investment.

3. Pursuant to a State-owned Land Use Rights Certificate (國有土地使用證), Rao Xian Guo Yong (2008) No. 00653, issued by Shangrao County People's Government (上饒縣人民政府) dated September 25, 2008, the land use rights of a land parcel of the property with a site area of 173,294.75 sq.m. have been granted to Jiangxi Nature for a term expiring on August 20, 2053 for industrial use.

4. Pursuant to a State-owned Land Use Rights Certificate (國有土地使用證), Rao Fu Kai Fa Guo Yong (2010) No. 20, issued by Shangrao City People's Government (上饒市人民政府) dated September 10, 2010, the land use rights of a land parcel of the property with a site area of 123,308.743 sq.m. have been granted to Jiangxi Yingran for a term expiring on October 24, 2060 for industrial use.

5. Pursuant to 2 Building Ownership Certificates, Shan Fang Quan Zheng Shan Grao Shi Zi Nos. GYYQ01666 and GYYQ01667, the building ownership rights of 2 buildings of the property with a total GFA of approximately 10,919.96 sq.m. are legally owned by Jiangxi Nature.

6. Pursuant to 2 Building Ownership Certificates, Shan Fang Quan Zheng Shan Grao Shi Zi Nos. GYYQ01668 and GYYQ01669, the building ownership rights of 2 buildings of the property with a total GFA of approximately 51,355.2 sq.m. are legally owned by Jiangxi Yingran.

7. The status of title and grant of major approvals and licenses in accordance with the information provided by the Group is as follows:

Land Transfer Contract	Yes
State-owned Construction Land Use Rights Grant Contract	Yes
State-owned Land Use Rights Certificates	Yes
Building Ownership Certificates	Yes

8. Pursuant to a Mortgage Contract dated November 26, 2008, the land use rights of the land parcel with a site area of 173,294.75 sq.m. stated in Note 3 are subject to a mortgage in favour of International Finance Corporation (國際金融公司) for a maximum loan amount of RMB8,000,000.

9. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights and the building ownership rights of the property are legally vested in Jiangxi Yingran and Jiangxi Nature; and

   b. The land use rights and the building ownership rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Yingran and Jiangxi Nature (except the restriction in relation to the mortgage stated in Note 8 and the assignment conditions stated in Note 2).

10. Jiangxi Nature and Jiangxi Yingran are indirectly wholly-owned subsidiaries of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
5.	Forest (Compartment: 95; Sub-compartment: 18) located at Dijiuzu Ajiaoyede, Zhanhe Village, Zhanhe Township, Yunnan Province, The PRC 位於中國雲南省戰河鄉戰河村第九組阿角也得的森林 (林班: 95; 小班: 18)	The property comprises a land parcel with a site area of approximately 1,615,141 sq.m. (approximately 161.51 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 70 years expiring on September 26, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	820,000

Notes:

1. Pursuant to a Forestry Rights Certificate, Ning Xian Lin Zheng Zi (2008) Di No. 0014001627, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for a term of 70 years expiring on September 26, 2078 for forestry purpose.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
6.	Forest located at Sahlihe Village, Xichuan Township, Yunnan Province, The PRC 位於中國雲南省西川鄉沙力河村的森林 (Please refer to Note 1 for detailed addresses)	The property comprises 3 land parcels with a total site area of approximately 6,522,165 sq.m. (approximately 652.22 hectares). The major tree species on the property are Yunnan pine and Huashan pine. The forestry land use rights of the property are held under various Forestry Rights Certificates for terms of 70 years with the latest expiry date on October 25, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	3,310,000

Notes:

1. Pursuant to 3 Forestry Rights Certificates, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for terms of 70 years with the latest expiry date on October 25, 2078 for forestry purpose. The details of which are summarized in the table below:

No.	Compartment	Sub-compartment	Certificate No.	Site Area (sq.m.)	Expiry Date
1.	76-80	(4-5-6-7-8-10) (7-8-9)	Ning Xian Lin Zheng Zi (2008) Di No. 0008000787	2,353,478	October 25, 2078
2.	72, 71	1-2, 3-4	Ning Xian Lin Zheng Zi (2008) Di No. 0008000792	2,812,014	October 24, 2078
3.	75	1.2.3	Ning Xian Lin Zheng Zi (2008) Di No. 0008000796	1,356,673	October 24, 2078
			Total:	**6,522,165**	

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
7.	Forest located at Xibuhe Village, Xibuhe Township, Yunnan Province, The PRC 位於中國雲南省西布河鄉西布河村的森林 (Please refer to Note 1 for detailed addresses)	The property comprises 65 land parcels with a total site area of approximately 12,627,331 sq.m. (approximately 1,262.73 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under various Forestry Rights Certificates for terms of 50 years and 70 years with the latest expiry date on November 3, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	6,100,000

Notes:

1. Pursuant to 40 Forestry Rights Certificates, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for terms of 50 years and 70 years with the latest expiry date on 3 November 2078 for forestry purpose. The details of which are summarized in the table below:

No.	Compartment	Sub-compartment	Certificate No.	Land Parcel No.	Site Area (sq.m.)	Expiry Date
1.	87	4	Ning Xian Lin Zheng (2008) Di No. 0010001415	1.	529,869	June 16, 2060
2.	87	5	Ning Xian Lin Zheng (2008) Di No. 0010001416	2.	129,734	June 16, 2060
3.	87	6	Ning Xian Lin Zheng (2008) Di No. 0010001417	3.	51,467	June 16, 2060
4.	87	7	Ning Xian Lin Zheng (2008) Di No. 0010001418	4.	86,000	June 16, 2060
5.	87 87 86	1 5.8 3	Ning Xian Lin Zheng (2008) Di No. 0010001419	5. 6. 7.	273,201 124,667 59,734	June 16, 2060
6.	87	9	Ning Xian Lin Zheng (2008) Di No. 0010001420	8.	87,734	June 16, 2060
7.	87 86 88 86 86	6 4 4 0 3	Ning Xian Lin Zheng (2008) Di No. 0010001423	9. 10. 11. 12. 13.	455,936 34,134 19,267 45,200 32,000	June 16, 2060

No.	Compartment	Sub-compartment	Certificate No.	Land Parcel No.	Site Area (sq.m.)	Expiry Date
8.	86	4	Ning Xian Lin Zheng (2008) Di No. 0010001424	14.	359,335	June 16, 2060
9.	85	7	Ning Xian Lin Zheng (2008) Di No. 0010001425	15.	213,268	June 16, 2060
10.	86	3	Ning Xian Lin Zheng (2008) Di	16.	37,067	June 16, 2060
	86	6	No. 0010001427	17.	138,734	
11.	86	4	Ning Xian Lin Zheng (2008) Di	18.	4,133	June 16, 2060
	88	4	No. 0010001428	19.	56,867	
12.	86	4	Ning Xian Lin Zheng (2008) Di No. 0010001429	20.	52,600	June 16, 2060
13.	86	4	Ning Xian Lin Zheng (2008) Di No. 0010001430	21.	107,734	June 16, 2060
14.	86	1	Ning Xian Lin	22.	49,200	June 16, 2060
	86	3.4	Zheng (2008) Di	23.	147,201	
	93	1	No. 0010001431	24.	4,067	
15.	86	4	Ning Xian Lin Zheng (2008) Di	25.	72,867	June 16, 2060
	93	1	No. 0010001433	26.	21,667	
16.	85	8	Ning Xian Lin Zheng (2008) Di No. 0010001435	27.	47,000	June 16, 2060
17.	86	5	Ning Xian Lin Zheng (2008) Di	28.	11,801	June 16, 2060
	85	8	No. 0010001437	29.	39,800	
18.	86	1.2	Ning Xian Lin	30.	612,203	June 16, 2060
	86	5	Zheng (2008) Di	31.	18,267	
	86	1	No. 0010001438	32.	34,800	
19.	85	2	Ning Xian Lin Zheng (2008) Di	33.	16,333	June 16, 2060
	86	6	No. 0010001439	34.	8,600	
20.	86	3	Ning Xian Lin Zheng (2008) Di	35.	10,400	June 16, 2060
	86	6	No. 0010001440	36.	70,000	
21.	86	6	Ning Xian Lin Zheng (2008) Di No. 0010001443	37.	108,401	June 16, 2060
22.	81	11.12.4.10	Ning Xian Lin Zheng (2008) Di No. 0010001694	38.	955,138	July 8, 2078
23.	81.78	4.7	Ning Xian Lin Zheng (2008) Di No. 0010001698	39.	700,737	June 16, 2060
24.	87	1	Ning Xian Lin Zheng (2008) Di No. 0010001704	40.	188,868	June 16, 2060

No.	Compartment	Sub-compartment	Certificate No.	Land Parcel No.	Site Area (sq.m.)	Expiry Date
25.	87	5	Ning Xian Lin Zheng (2008) Di No. 0010001705	41.	113,667	June 16, 2060
26.	76	4	Ning Xian Lin Zheng (2008) Di No. 0010001811	42.	615,736	November 3, 2078
27.	93	6	Ning Xian Lin Zheng (2008) Di No. 0010002233	43.	52,667	June 16, 2060
28.	93	6	Ning Xian Lin Zheng (2008) Di No. 0010002234	44.	90,000	June 16, 2060
29.	93	6	Ning Xian Lin Zheng (2008) Di No. 0010002235	45.	127,601	June 16, 2060
	93	6		46.	63,600	
30.	93	8	Ning Xian Lin Zheng (2008) Di No. 0010002236	47.	147,201	June 16, 2060
31.	93	5.6	Ning Xian Lin Zheng (2008) Di No. 0010002237	48.	312,602	June 16, 2060
32.	93	6	Ning Xian Lin Zheng (2008) Di No. 0010002238	49.	22,000	June 16, 2060
	93	6		50.	31,267	
33.	93	6	Ning Xian Lin Zheng (2008) Di No. 0010002240	51.	129,134	June 16, 2060
	93	11		52.	128,001	
34.	93	6	Ning Xian Lin Zheng (2008) Di No. 0010002241	53.	215,934	June 16, 2060
	99	4		54.	40,734	
35.	93	6	Ning Xian Lin Zheng (2008) Di No. 0010002242	55.	42,467	June 16, 2060
	93	6		56.	24,400	
	95	2.3.4		57.	788,404	
36.	93	6	Ning Xian Lin Zheng (2008) Di No. 0010002243	58.	195,801	June 16, 2060
	99	1.2.3		59.	1,064,939	
37.	98	5	Ning Xian Lin Zheng (2008) Di No. 0010002244	60.	774,671	June 16, 2060
	93	8		61.	39,800	
	98	8		62.	97,734	

No.	Compartment	Sub-compartment	Certificate No.	Land Parcel No.	Site Area (sq.m.)	Expiry Date
38.	98	8	Ning Xian Lin Zheng (2008) Di No. 0010002245	63.	417,802	June 16, 2060
39.	98	8	Ning Xian Lin Zheng (2008) Di No. 0010002249	64.	120,067	June 16, 2060
40.	98	4.6.7	Ning Xian Lin Zheng (2008) Di No. 0010002257	65.	955,071	June 16, 2060
			Total:		**12,627,331**	

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
8.	Forest located at Er Village, Paomaping Township, Yunnan Province, The PRC 位於中國雲南省跑馬坪鄉二村的森林 (Please refer to Note 1 for detailed addresses)	The property comprises 6 land parcels with a total site area of approximately 4,519,823 sq.m. (approximately 451.98 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under various Forestry Rights Certificates for a common term of 70 years expiring on November 18, 2077 for forestry purpose.	The property is occupied by the Group for forestry purpose.	2,270,000

Notes:

1. Pursuant to 3 Forestry Rights Certificates, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for a common term of 70 years expiring on November 18, 2077 for forestry purpose. The details of which are summarized in the table below:

No.	Compartment	Sub-compartment	Certificate No.	Land Parcel No.	Site Area (sq.m.)	Expiry Date
1.	6	3	Ning Xian Lin	1.	903,138	November 18, 2077
	6	4	Zheng (2008) Di	2.	62,534	
			No. 000D000085			
2.	5	1	Ning Xian Lin Zheng	3.	180,401	November 18, 2077
	2	1-17	(2008)	4.	2,496,279	
			Di No. 000D000086			
3.	5	10	Ning Xian Lin Zheng	5.	49,667	November 18, 2077
	5	13	(2008)	6.	827,804	
			Di No. 000D000088			
			Total:		**4,519,823**	

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
9.	Forest (Compartment: 106 107: Sub-compartment: 3 1 7) located at Hanjiahan Village, Zhanhe Township, Yunnan Province, The PRC 位於中國雲南省戰河鄉漢家廠村的森林 (林班: 106 107; 小班: 3 1 7)	The property comprises a land parcel with a site area of approximately 1,457,674 sq.m. (approximately 145.77 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 70 years expiring on September 20, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	740,000

Notes:

1. Pursuant to a Forestry Rights Certificate, Ning Xian Lin Zheng Zi (2008) Di No. 0014000165, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展 有限公司) ("Jiangxi Forest") for a term of 70 years expiring on September 20, 2078 for forestry purpose.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
10.	Forest (Compartment: 144.145; Sub-compartment: (3,4) (2,3)) located at Erlaba Village, Lannijing Township, Yunnan Province, The PRC 位於中國雲南省爛泥菁鄉二拉壩村的森林 (林班: 144.145; 小班: (3,4) (2,3))	The property comprises a land parcel with a site area of approximately 2,809,947 sq.m. (approximately 280.99 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 70 years expiring on November 8, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	1,420,000

Notes:

1. Pursuant to a Forestry Rights Certificate, Ning Xian Lin Zheng Zi (2008) Di No. 0009001874, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for a term of 70 years expiring on 8 November 2078 for forestry purpose.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
11.	Forest (Compartment: 105, 106; Sub-compartment: 2, 2-4 respectively) located at Jiema Village, Xichuan Township, Yunnan Province, The PRC 位於中國雲南省西川鄉界馬村的森林 (分別為林班: 105, 106; 小班: 2, 2-4)	The property comprises 2 land parcels with a total site area of approximately 1,821,743 sq.m. (approximately 182.17 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 70 years expiring on November 30, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	920,000

Notes:

1. Pursuant to a Forestry Rights Certificate, Ning Xian Lin Zheng Zi (2008) Di No. 0008001237, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for a term of 70 years expiring on November 30, 2078 for forestry purpose.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
12.	Forest (Compartment: 51; Sub-compartment: 6-7-9-10-12-13-15-16) located at Zhushan Village, Xichuan Township, Yunnan Province, The PRC 位於中國雲南省西川鄉竹山村的森林 (林班: 51; 小班: 6-7-9-10-12-13-15-16)	The property comprises a land parcel with a site area of approximately 1,859,809 sq.m. (approximately 185.98 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under a Forestry Rights Certificate for a term of 70 years expiring on December 4, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	940,000

Notes:

1. Pursuant to a Forestry Rights Certificate, Ning Xian Lin Zheng Zi (2008) Di No. 0008000087, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for a term of 70 years expiring on December 4, 2078 for forestry purpose.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
13.	Forest located at Daigou Village, Xibuhe Township, Yunnan Province, The PRC 位於中國雲南省西布河鄉大溝村的森林 (Please refer to Note 1 for detailed addresses)	The property comprises 2 land parcels with a total site area of approximately 3,519,351 sq.m. (approximately 351.94 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under 2 Forestry Rights Certificates for a common term of 70 years expiring on October 28, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	1,780,000

Notes:

1. Pursuant to 2 Forestry Rights Certificates, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for a common term of 70 years expiring on October 28, 2078 for forestry purpose. The details of which are summarized in the table below:

No.	Compartment	Sub-compartment	Certificate No.	Site Area (sq.m.)	Expiry Date
1.	27	1-8	Ning Xian Lin Zheng (2008) Di No. 0010002872	2,121,877	October 28, 2078
2.	26	1-7	Ning Xian Lin Zheng (2008) Di No. 0010002873	1,397,474	October 28, 2078
			Total:	**3,519,351**	

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
14.	Forest located at Jinzigou Village, Hongqiao Township, Yunnan Province, The PRC 位於中國雲南省紅橋鄉金子溝村的森林 (Please refer to Note 1 for detailed addresses)	The property comprises 4 land parcels with a total site area of approximately 7,701,972 sq.m. (approximately 770.20 hectares). The major tree species on the property is Yunnan pine. The forestry land use rights of the property are held under various Forestry Rights Certificates for various terms with the latest expiry date on September 1, 2078 for forestry purpose.	The property is occupied by the Group for forestry purpose.	3,890,000

Notes:

1. Pursuant to 4 Forestry Rights Certificates, the forestry land use rights of the property are held by Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest") for various terms with the latest expiry date on 1 September 2078 for forestry purpose. The details of which are summarized in the table below:

No.	Compartment	Sub-compartment	Certificate No.	Site Area (sq.m.)	Expiry Date
1.	166	7	Ning Xian Lin Zheng (2008) Di No. 0004000725	2,258,678	September 1, 2078
2.	174	6	Ning Xian Lin Zheng (2008) Di No. 0004000756	1,688,808	September 1, 2078
3.	172	6	Ning Xian Lin Zheng (2008) Di No. 0004002226	2,140,277	September 1, 2078
4.	166	50	Ning Xian Lin Zheng (2008) Di No. 0004002227	1,614,209	November 18, 2077
			Total:	**7,701,972**	

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The land use rights of the property are legally vested in Jiangxi Forest; and

   b. The land use rights of the property can be legally occupied, used, transferred and disposed of by Jiangxi Forest.

3. Jiangxi Forest is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group III — Properties leased by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
15.	Warehouse No. A11, Jijiamiao Nanli (inside the courtyard of Tian Heng Company), Fengtai District, Beijing, The PRC 中國北京市豐台區紀家廟南里（天恒公司院內）A11號庫房	The property comprises a single-storey warehouse completed in 1980s. The gross floor area ("GFA") of the property is approximately 360 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司 ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on September 20, 2010 and expiring on September 19, 2011 at an annual rent of RMB69,000 exclusive of management fee and other outgoings.	The property is occupied by the Group for warehouse purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The Lease Contract is invalid and the lessor is not entitled to lease the property. The rights of Kunshan Nature under the Lease Contract are not protected by the PRC Laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 RMB
16.	A residential unit on Level 3, No. 35 Xiangshan Street, Nansha Village, Jingang Town, Zhangjiagang City, Jiangsu Province, The PRC 中國江蘇省張家港市金港鎮南沙村香山大街35號三層之一個住宅單位	The property comprises a residential unit on Level 3 of a 5-storey residential building completed in about 2000. The gross floor area ("GFA") of the property is approximately 1,589.7 sq.m. Pursuant to a Lease Contract entered into between Nature (Zhangjiagang) Wood Industry Co., Ltd. (大自然(張家港)木業有限公司) ("Zhangjiagang Nature") and an independent third party, the property is leased to Zhangjiagang Nature for a term of 3 years commencing on June 18, 2009 and expiring on June 18, 2012 at an annual rent of RMB52,800 exclusive of taxes and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Zhangjiagang Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 RMB
17.	Level 3, No. 59 Zhongxingnan Road, Jingang Town, Zhangjiagang City, Jiangsu Province, The PRC 中國江蘇省張家港市金港鎮中興南路59號第三層	The property comprises a residential unit on Level 3 of a 4-storey residential building completed in about 1995. The gross floor area ("GFA") of the property is approximately 404.08 sq.m. Pursuant to a Lease Contract entered into between Nature (Zhangjiagang) Wood Industry Co., Ltd. (大自然(張家港)木業有限公司) ("Zhangjiagang Nature") and an independent third party, the property is leased to Zhangjiagang Nature for a term commencing on December 5, 2010 and expiring on December 5, 2011 at an annual rent of RMB9,600 exclusive of taxes and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Zhangjiagang Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
18.	Level 2, Block 1, Fuyuannong, the western side of Dongshannan Road, Nansha Town, Zhangjiagang City, Jiangsu Province, The PRC 中國江蘇省張家港市南沙鎮東山南路西側富園弄一幢第二層	The property comprises a residential unit on Level 2 of a 3-storey residential building completed in about 1997. The gross floor area ("GFA") of the property is approximately 96 sq.m. Pursuant to a Lease Contract entered into between Nature (Zhangjiagang) Wood Industry Co., Ltd. (大自然(張家港)木業有限公司) ("Zhangjiagang Nature") and an independent third party, the property is leased to Zhangjiagang Nature for a term commencing on May 15, 2010 and expiring on May 14, 2011 at an annual rent of RMB7,580 exclusive of taxes and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Zhangjiagang Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The legality and validity of the tenancy and the Group's rights to use and occupy the property cannot be ascertained and the rights of the Group under the Lease Contract may not be protected by the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
19.	Unit 302, Building No. 12, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮澱新新村12號樓302室	The property comprises a residential unit on Level 3 of a 5-storey residential building completed in about 1993. The gross floor area ("GFA") of the property is approximately 85 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on September 1, 2010 and expiring on August 31, 2011 at an annual rent of RMB13,200 inclusive of taxes and exclusive of management fee and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
20.	Unit 401, Building No. 16, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮澱新新村16號樓401室	The property comprises a residential unit on Level 4 of a 5-storey residential building completed in about 1993. The gross floor area ("GFA") of the property is approximately 92.5 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on April 1, 2011 and expiring on April 1, 2012 at an annual rent of RMB14,400 inclusive of taxes and exclusive of management fee and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
21.	Unit 401, Building No. 21, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市淀山湖鎮淀新新村21號樓401室	The property comprises a residential unit on Level 4 of a 5-storey residential building completed in about 1993. The gross floor area ("GFA") of the property is approximately 92.5 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on May 17, 2010 and expiring on May 16, 2011 at an annual rent of RMB12,000 exclusive of management fee and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
22.	Unit 101, Building No. 23, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市淀山湖鎮淀新新村23號樓101室	The property comprises a residential unit on Level 2 of a 5-storey residential building completed in about 1993. The gross floor area ("GFA") of the property is approximately 85 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on December 14, 2010 and expiring on December 13, 2011 at an annual rent of RMB16,800 inclusive of taxes and exclusive of management fee and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
23.	Unit 102, Building No. 23, Dianxinxin Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮澱新新村23號樓102室	The property comprises a residential unit on Level 2 of a 5-storey residential building completed in about 1993. The gross floor area ("GFA") of the property is approximately 85 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on February 1, 2011 and expiring on February 1, 2012 at an annual rent of RMB13,200 inclusive of taxes and exclusive of management fee and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
24.	Unit 401, No. 115 Zhongshi Road, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮中市路115號401室	The property comprises a residential unit on Level 4 of a 5-storey residential building completed in 1990s. The gross floor area ("GFA") of the property is approximately 98 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on July 27, 2010 and expiring on July 26, 2011 at an annual rent of RMB13,920 inclusive of taxes and exclusive of management fee and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The legality and validity of the tenancy and the Group's rights to use and occupy the property cannot be ascertained and the rights of the Group under the Lease Contract may not be protected by the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
25.	Building No. 81, Fuqian Road, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮府前路81號樓	The property comprises a 2-storey residential building completed in 1980s. The gross floor area ("GFA") of the property is approximately 200 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on December 7, 2010 and expiring on December 6, 2011 at an annual rent of RMB15,600 exclusive of management fee and other outgoings.	The property is occupied by the Group for staff quarter purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
26.	An industrial building located at the western side of Xindabiao Tongye Company Limited and the northern side of Shanghong Road, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 中國江蘇省昆山市澱山湖鎮上洪路北面及新達標銅業有限公司西側之廠房	The property comprises a single-storey industrial building completed in 2007 erected on a land parcel with a site area of approximately 7,666.71 sq.m. The gross floor area ("GFA") of the building is approximately 2,560 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on February 1, 2011 and expiring on January 31, 2012 at an annual rent of RMB350,000 exclusive of management fee and other outgoings.	The property is occupied by the Group for industrial purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The legality and validity of the tenancy and the Group's rights to use and occupy the property cannot be ascertained and the rights of the Group under the Lease Contract may not be protected by the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
27.	Warehouse No. A2-4, No. 1339 Jindu Road, Minxing District, Shanghai, The PRC 中國上海市閔行區金都路1339號A2-4號倉庫	The property comprises a single-storey warehouse completed in 2000s. The gross floor area ("GFA") of the property is approximately 300 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on March 1, 2011 and expiring on February 28, 2012 at an annual rent of RMB91,980 exclusive of management fee and other outgoings.	The property is occupied by the Group for warehouse purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.
2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:
    a. The title documents of the property have not been provided; and
    b. The legality and validity of the tenancy and the Group's rights to use and occupy the property cannot be ascertained and the rights of the Group under the Lease Contract may not be protected by the PRC laws.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
28.	An industrial complex located at No. 1 Industrial District, Nanwen Community, Dachong Town, Zhongshan City, Guangdong Province, The PRC 位於中國廣東省中山市大湧鎮南文社區第一工業區之一個工業廠區	The property comprises a land parcel and 8 buildings and various ancillary structures completed in about 2005 erected thereon. The total gross floor area ("GFA") of the buildings is approximately 10,388.2 sq.m. The buildings mainly include an office building, warehouses and factories. The structures mainly include roads, walls and a gate. Pursuant to a Lease Contract entered into between an independent third party and Nature (Zhongshan) Wood Industry Co., Ltd. (中山市大自然木業有限公司) ("Zhongshan Nature") dated September 1, 2006, the property is leased to Zhongshan Nature for industrial use for a term commencing on September 15, 2006 and expiring on March 14, 2021 at a monthly rent of RMB83,105.6.	The property is occupied by the Group for industrial purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Zhongshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The Lease Contract is invalid and the lessor is not entitled to lease the property. The rights of Zhongshan Nature under the Lease Contract are not protected by the PRC Laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
29.	An industrial building located at Xingchong Road and its junction of Makeng Road, Dachong Town, Zhongshan City, Guangdong Province, The PRC 位於中國廣東省中山市大涌鎮興涌路及其與馬坑路交匯處之一棟工業大樓	The property comprises a 2-storey industrial building completed in about 2006. The gross floor area ("GFA") of the property is approximately 1,000 sq.m. Pursuant to a Lease Contract entered into between an independent third party and Nature (Zhongshan) Wood Industry Co., Ltd. (中山市大自然木業有限公司) ("Zhongshan Nature") dated March 1, 2008, the property is leased to Zhongshan Nature for a term commencing on March 1, 2008 and expiring on December 31, 2013 for industrial use at a monthly rent of RMB4,000.	The property is occupied by the Group for industrial purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Zhongshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The legality and validity of the tenancy and the Group's rights to use and occupy the property cannot be ascertained and the rights of the Group under the Lease Contract may not be protected by the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
30.	2 industrial buildings located at No. 8 Longpan West Road, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區龍盤西路8號之2棟 工業大樓	The property comprises 2 industrial buildings completed in about 1995. The total gross floor area ("GFA") of the property is approximately 2,805 sq.m. Pursuant to a Lease Contract entered into between an independent third party and Nature Flooring (China) Co., Ltd. (大自然地板（中國）有限公司) ("Nature China") dated March 1, 2010, the property is leased to Nature China for a term commencing on March 1, 2010 and expiring on November 30, 2016 at a monthly rent of RMB33,600.	The property is occupied by the Group for production purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Nature China, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The legality and validity of the tenancy and the Group's rights to use and occupy the property cannot be ascertained and the rights of the Group under the Lease Contract may not be protected by the PRC laws.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
31.	26 residential units on Levels 1 to 6, No. 2 Shunheng Road, Wusha Residential Committee, Galiang Street Office, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道辦事處五沙居委會順恒路2號一層至六層之26個住宅單位	The property comprises 26 residential units of a residential building completed in about 2009. The total gross floor area ("GFA") of the property is approximately 713.59 sq.m. Pursuant to a Lease Contract entered into between an independent third party and Guangdong Yingran Wood Industry Co., Ltd. (廣東盈然木業有限公司) ("Guangdong Yingran"), the property is leased to Guangdong Yingran for a term commencing on December 1, 2009 and expiring on November 31, 2012 at a monthly rent of RMB8,320 inclusive of tax.	The property is occupied by the Group for residential purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Guangdong Yingran, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
32.	26 residential units on Levels 1 to 6, Land Parcel No. 36-6, Demolition and Move Arrangement Zone, Wusha Residential Committee, Galiang Street Office, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道辦事處五沙居委會拆遷安置區36-6號地一層至六層之26個住宅單位	The property comprises 26 residential units of a residential building completed in about 2009. The total gross floor area ("GFA") of the property is approximately 707.57 sq.m. Pursuant to 3 Lease Contracts entered into between an independent third party and Guangdong Yingran Wood Industry Co., Ltd. (廣東盈然木業有限公司) ("Guangdong Yingran"), the property is leased to Guangdong Yingran for a term commencing on December 1, 2009 and expiring on November 31, 2012 at a total monthly rent of RMB8,320 inclusive of tax.	The property is occupied by the Group for residential purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contracts, the tenant of the property is Guangdong Yingran, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contracts.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
33.	A warehouse located at Hui Yuan, Fourth Group, Houjia Village, Jinniu Township, Chengdu City, Sichuan Province, The PRC 位於中國四川省成都市金牛鄉侯家村四組惠園之一個倉庫	The property comprises a warehouse completed in about 2005. The gross floor area ("GFA") of the property is approximately 530 sq.m. Pursuant to a Lease Contract entered into between Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature") and an independent third party, the property is leased to Kunshan Nature for a term commencing on November 15, 2010 and expiring on November 14, 2011 at an annual rent of RMB43,000 exclusive of management fee and other outgoings.	The property is occupied by the Group for warehouse purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The Lease Contract is invalid and the lessor is not entitled to lease the property. The rights of Kunshan Nature under the Lease Contract are not protected by the PRC laws.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
34.	A building located at No. 143 Wenmiao Lane, Dayan Street and Beimen Street, Gucheng District, Lijiang City, Yunnan Province, The PRC 位於中國雲南省麗江市古城區大研街道北門街文廟巷143號之一棟大樓	The property comprises a 2-storey building completed in about 2007. The gross floor area ("GFA") of the property is approximately 172.21 sq.m. Pursuant to a Lease Contract entered into between Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展 有限公司) ("Jiangxi Forest") and an independent third party, the property is leased to Jiangxi Forest for a term commencing on March 1, 2010 and expiring on February 28, 2012 at an annual rent of RMB20,000 exclusive of management fee and other outgoings.	The property is occupied by the Group for office purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Jiangxi Forest, which is an indirectly wholly-owned subsidiary of the Company.
2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:
   a. The lessor of the property is legally entitled to lease the property; and
   b. The Group has the rights to use the property in accordance with the Lease Contract.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
35.	50 residential units located at Nos. 17 and 18, Third Lane, Sixth Road, Dawei Village, Fuyou Residential Committee, Galiang Street Office, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道辦事處府又居委會大圍村六街三巷17及18號之50個住宅單位	The property comprises 50 residential units of two 4-storey residential buildings completed in about 2007. The total gross floor area ("GFA") of the property is approximately 1,461.3 sq.m. Pursuant to a Lease Contract entered into between an independent third party and Nature Flooring (China) Co., Ltd. (大自然地板（中國）有限公司) ("Nature China"), the property is leased to Nature China for a term commencing on January 1, 2011 and expiring on December 31, 2011 at a monthly rent of RMB27,798.35 inclusive of management fee but exclusive of other outgoings.	The property is occupied by the Group for residential purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Nature China, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
36.	29 residential units located at No. 8, Tenth Lane, Fifth Road, Dawei Village, Fuyou Residential Committee, Galiang Street Office, Shunde District, Foshan City, Guangdong Province, The PRC 位於中國廣東省佛山市順德區大良街道辦事處府又居委會大圍村五街十巷8號之29個住宅單位	The property comprises 29 residential units of a residential building completed in about 2003. The total gross floor area ("GFA") of the property is approximately 807.8 sq.m. Pursuant to a Lease Contract entered into between an independent third party and Nature Flooring (China) Co., Ltd. (大自然地板（中國）有限公司) ("Nature China"), the property is leased to Nature China for a term commencing on January 1, 2011 and expiring on December 31, 2011 at a monthly rent of RMB16,532.89 inclusive of management fee but exclusive of other outgoings.	The property is occupied by the Group for residential purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Nature China, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
37.	Block 3 Factory Building, No. 10 Industrial District, Shunchang Road, Daliang Wusha, Shunde District, Foshan City, Guangdong Province, The PRC 中國廣東省佛山市順德區大良五沙順昌路10號廠區第三座廠房	The property comprises a parcel of land with a site area of approximately 9,338.4 sq.m. and a building completed in 2010 erected thereon. The gross floor area ("GFA") of the property is approximately 9,798.4 sq.m. Pursuant to a Lease Contract entered into between an independent third party and Nature Flooring (China) Co., Ltd. (大自然地板（中國）有限公司) ("Nature China"), the property is leased to Nature China for a term commencing on October 1, 2010 and expiring on December 31, 2013 at a monthly rent of RMB86,781.2 for the first year and which shall be increased by around 10% thereafter annually, exclusive of tax, management fee and other outgoings.	The property is occupied by the Group for warehouse purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Nature China, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
38.	A residential unit located at Kuilang Industrial District, Dachong Town, Zhongshan City, Guangdong Province, The PRC 位於中國廣東省中山市大涌鎮葵朗工業區之一個住宅單位	The property comprises a residential unit of a 4-storey residential building completed in about 2008. The gross floor area ("GFA") of the property is approximately 1,462.53 sq.m. Pursuant to a Lease Contract and its supplementary agreement entered into between an independent third party and Nature (Zhongshan) Wood Industry Co., Ltd. (中山市大自然木業有限公司) ("Zhongshan Nature"), the property is leased to Zhongshan Nature for a term commencing on July 1, 2008 and expiring on April 16, 2012 at a monthly rent of RMB5,720 for the first year and increased to RMB13,073 from March 2009 and RMB14,396 from June 2010, exclusive of water, electricity and cable TV charges.	The property is occupied by the Group for residential purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Zhongshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
39.	A factory building located at Zhongshan City Lesida Color Printing and Packaging Company Limited, Shangren Road, Dachong Town, Zhongshan City, Guangdong Province, The PRC 位於中國廣東省中山市大湧鎮尚仁路段中山市樂斯達彩印包裝有限公司內之[一個廠房]	The property comprises a factory building completed in about 2001. The gross floor area ("GFA") of the property is approximately 600 sq.m. Pursuant to a Lease Contract entered into between an independent third party and Nature (Zhongshan) Wood Industry Co., Ltd. (中山市大自然木業有限公司) ("Zhongshan Nature"), the property is leased to Zhongshan Nature for a term commencing on November 1, 2010 and expiring on October 31, 2011 at a monthly rent of RMB7,250 exclusive of management fee and other outgoings.	The property is occupied by the Group for storage and manufacturing purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Zhongshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The title documents of the property have not been provided; and

   b. The legality and validity of the tenancy and the Group's rights to use and occupy the property cannot be ascertained and the rights of the Group under the Lease Contract may not be protected by the PRC laws.

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VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
40.	Two buildings located at No. 461 Chaoyang East Road, Daxing Town, Ninglang County, Lijiang City, Yunnan Province, The PRC 位於中國雲南省麗江市寧蒗縣大興鎮朝陽東路461號之兩幢樓宇	The property comprises a 2 buildings completed in about 1998. The total gross floor area ("GFA") of the property is approximately 219.3 sq.m. Pursuant to a Lease Contract and its supplementary agreement entered into between an independent third party and Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司麗江分公司) ("Jiangxi Forest"), the property is leased to Jiangxi Forest for a term commencing on April 1, 2011 and expiring on March 31, 2016 at an annual rent of RMB30,000 exclusive of all outgoings.	The property is occupied by the Group for residential purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Jiangxi Forest, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
41.	A residential unit located at No. 7 Residential Building, Jingyuan House, Fenghuang Road, Xuri Town, Shangrao County, Shangrao City, Jiangxi Province, The PRC 位於中國江西省上饒市上饒縣旭日鎮鳳凰路景苑樓7號住宅樓之[一個住宅單位]	The property comprises a residential unit of a 3-storey residential building completed in about 1999. The gross floor area ("GFA") of the property is approximately 176 sq.m. Pursuant to a Lease Contract and its supplementary agreement entered into between an independent third party and Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司) ("Jiangxi Forest"), the property is leased to Jiangxi Forest for a term commencing on October 14, 2010 and expiring on October 13, 2013 at a monthly rent of RMB1,250 exclusive of management fee and all outgoings.	The property is occupied by the Group for office and residential purposes.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Jiangxi Forest, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
42.	A residential unit located at No. 1 Building, Yanjiang Road New Village, Dianshanhu Town, Kunshan City, Jiangsu Province, The PRC 位於中國江蘇省昆山市淀山湖鎮沿江路新村1號樓之一個住宅單位	The property comprises a residential unit of a 2-storey residential building completed in about 1990. The gross floor area ("GFA") of the property is approximately 195.37 sq.m. Pursuant to a Lease Contract and its supplementary agreement entered into between an independent third party and Yingyi-Nature (Kunshan) Wood Industry Co., Ltd. (昆山盈意大自然木業有限公司) ("Kunshan Nature"), the property is leased to Kunshan Nature for a term commencing on October 7, 2010 and expiring on October 6, 2011 at a monthly rent of RMB1,700 inclusive of tax but exclusive of management fee and all outgoings.	The property is occupied by the Group for residential purpose.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, the tenant of the property is Kunshan Nature, which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the PRC legal advisor to the Group contains, inter-alia, the following:

   a. The Lease Contract has not been registered and the non-registration will not affect the legality of the Lease Contract;

   b. The lessor of the property is legally entitled to lease the property; and

   c. The Group has the rights to use the property in accordance with the Lease Contract.

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VALUATION CERTIFICATE

Group IV — Property leased by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
43.	Unit 3401, 34/F., West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Sheung Wan, Hong Kong	The property comprises an office unit on the 34th floor of a 39-storey commercial / office building completed in about 1986. The gross floor area ("GFA") of the property is approximately 231.42 sq.m. (or about 2,491 sq.ft.). Pursuant to a Tenancy Agreement entered into between Grace Glory Limited, an indirectly wholly-owned subsidiary of the Company, and an independent third party, the property is leased to Grace Glory Limited for a term commencing on January 11, 2011 and expiring on January 10, 2013, at a monthly rent of HK$97,149 exclusive of all outgoings, with a rent free period from January 11, 2011 to February 10, 2011.	The property is occupied by the Group for office purpose.	No Commercial Value

VALUATION CERTIFICATE

Group V — Property leased by the Group in Macau

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
44.	Alameda Dr. Carlos D'Assumpcao, No. 249, 13 Andar, L&M13 Edif., China Civic Plaza, Macau	The property comprises 2 office units on the 13th floor of a high-rise commercial building completed in about 1996. The total gross floor area ("GFA") of the property is approximately 351.91 sq.m. (or about 3,788 sq.ft.). Pursuant to a Tenancy Agreement entered into between YS Nature International Trading Co., Ltd., an indirectly wholly-owned subsidiary of the Company, and a connected party of the Company, the property is leased to YS Nature International Trading Co., Ltd. for a term commencing on January 1, 2011 and expiring on December 31, 2013 at a monthly rent of HKD26,516 exclusive of all outgoings.	The property is occupied by the Group for office purpose.	No Commercial Value

VALUATION CERTIFICATE

Group VI — Properties leased by the Group in Peru

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
45.	Espintana Street, Manzana LL, Lote 11, AAHH, Maderos Loreto — Alto Amazonas, Yurimaguas, Peru	The property comprises an office unit on the ground floor of a single-storey building completed in about 1990s. The gross floor area ("GFA") of the property is approximately 100 sq.m. (or about 1,076.4 sq.ft.). Pursuant to a Tenancy Agreement entered into between A&A Peru S.A.C., an independent third party, and Nature America S.A.C., the property is leased to Nature America S.A.C. for a term commencing on November 1, 2010 and expiring on November 1, 2011 at a monthly rent of S/.800 inclusive of all outgoings.	The property is occupied by the Group for office and sawmill purposes.	No Commercial Value

Notes:

1. The opinion given by the Peru legal advisor to the Group contains, inter alia, the following:
   a. The lease is legal, valid, binding upon and enforceable against parties thereto; and
   b. The property is not subject to any notice or order given by any Peru governmental authority.
2. Nature America S.A.C. is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
46.	Elmer Faucett Avenue, Km. Int. 6.4m, Madre de Dios, Tambopata, Peru	The property comprises an office unit on the ground floor of a single-storey building completed in about 2010. The gross floor area ("GFA") of the property is approximately 60 sq.m. (or about 645.84 sq.ft.). Pursuant to a Tenancy Agreement entered into between Turbina S.A.C., an independent third party, and Nature Wood S.A.C., the property is leased to Nature Wood S.A.C. for a term commencing on November 1, 2010 and expiring on November 1, 2011 at a monthly rent of S/.800 inclusive of all outgoings.	The property is occupied by the Group for office and sawmill purposes.	No Commercial Value

Notes:

1. The opinion given by the Peru legal advisor to the Group contains, inter alia, the following:
   a. The lease is legal, valid, binding upon and enforceable against parties thereto; and
   b. The property is not subject to any notice or order given by any Peru governmental authority.
2. Nature Wood S.A.C. is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group VII — Properties occupied by the Group under concession rights in Peru

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
47.	A parcel of land (under Concession No. 16-YUR/C-1-AD-001-05) located in the districts of Yurimaguas and Teniente César López Rojas, Province of Alto Amazonas, Department of Loreto, Peru	The property comprises a parcel of land of irregular shape with a site area of approximately 21,974.41 hectares. A concession right has been granted from the Ministry of Agriculture for a term of 40 years from May 12, 2005, renewable for consecutive period of 5 years, at a consideration of USD1,318,464.6.	The property is occupied by the Group for exploitation of timber.	No Commercial Value

Notes:

1. Pursuant to a Forest Concession Contract (the "Contract"), No. 16-YUR/C-1-AD-001-05 issued by the Peruvian Government, the property is ceded under concession for exploration by Nature America S.A.C. ("Nature America"), which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the Peru legal advisor to the Group contains, inter-alia, the following:

    a. The Group has legal and valid title to the forestry concessions which are free from any liens, mortgages, charges, encumbrances, equities, claims, defects, options and restrictions or other third party rights; and

    b. The Group has the right to transfer, encumber and assign its rights and obligations, to assign its contractual position or novate any or all of its obligations or rights with prior express consent from the forestry authorities.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at March 31, 2011 *RMB*
48.	A parcel of land (under Concession No. 16-YUR/C-1-AD-002-05) located in the district of Teniente César López Rojas, Province of Alto Amazonas, Department of Loreto, Peru	The property comprises a parcel of land of rectangular shape with a site area of approximately 24,372.56 hectares. A concession right has been granted from the Ministry of Agriculture for a term of 40 years from July 25, 2005, renewable for consecutive period of 5 years, at a consideration of USD1,462,353.6.	The property is occupied by the Group for exploitation of timber.	No Commercial Value

Notes:

1. Pursuant to a Forest Concession Contract (the "Contract"), No. 16-YUR/C-1-AD-002-05 issued by the Peruvian Government, the property is ceded under concession for exploration by Nature America S.A.C. ("Nature America"), which is an indirectly wholly-owned subsidiary of the Company.

2. The opinion given by the Peru legal advisor to the Group contains, inter-alia, the following:

   a. The Group has legal and valid title to the forestry concessions which are free from any liens, mortgages, charges, encumbrances, equities, claims, defects, options and restrictions or other third party rights; and

   b. The Group has the right to transfer, encumber and assign its rights and obligations, to assign its contractual position or novate any or all of its obligations or rights with prior express consent from the forestry authorities.

The following is the text of the reports, prepared for the purpose of incorporation in this document, received from Pöyry, a forestry consultant, in connection with the valuation of our forest assets in Yunnan and our natural forest concessions in Peru.

PÖYRY
Engineering balanced sustainability™

Pöyry (Beijing) Consultant Co. Ltd.,
Shanghai Branch
2208-2210, Cloud Nine Plaza,
No. 1118, West Yan'an Road
Shanghai, PRC

Date: 16 May 2011

CHINA FLOORING HOLDING COMPANY LIMITED

Valuation of Forest Assets in Yunnan
As at December 31, 2010

DISCLAIMER

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PREFACE

Jiangxi Yingran Forest Development Co., Ltd, a wholly-owned subsidiary of China Flooring Holding Company Limited, commissioned Pöyry to undertake a market valuation of its forest estate in Yunnan province, China in 2010.

This report contains the opinion of Pöyry as to the **Value of Jiangxi Yingran Forest Development Co., Ltd's forest assets in Yunnan province, China as at December 31, 2010.**

This findings and conclusion in this report are subject to the assumptions and limiting conditions set out in the following pages and to any further qualifications referred to in the body of the full market valuation report.

See Young Ho
VICE PRESIDENT

Steve Croskery
SENIOR CONSULTANT

INTRODUCTION

At Jiangxi Yingran Forest Development Co., Ltd's request, Pöyry has prepared an independent market valuation of a forest estate in Yunnan province, China. The valuation date is as at December 31, 2010.

VALUATION METHODOLOGY

It is recommended practice when appraising real property to consider three main approaches:

- The comparable sales method (i.e. referencing the results of market transactions of other properties similar to the subject property).
- The income method (i.e. assessing the present value of the anticipated future net earnings stream).
- The costs method (i.e. acknowledging what it would cost to recreate the asset in its current condition).

It then rests with the appraiser's professional judgment to assess what weighting should be applied to the results from the respective methods.

The assessment of forest investments generally requires the examination of cash flows over a long time period. This leads to the application of discounted cash flow analysis techniques (DCF) as an indispensable part of the appraisal process. Each of the three main approaches may come to be applied within a DCF framework.

Thus;

- The cost method may be applied with wholly young stands and especially those where relying on a discounting approach alone produces values unlikely to be supported by the market. In valuing the young stands reference is made to their costs of establishment. In order to recognize the forest owner's entitlement to a return on investment, a compounding approach may be applied, requiring the selection of a suitable compounding rate.
- The income method employs a conventional discounting approach. In referencing wider evidence of expectations of a return on capital, one common basis for the discount rate is the Weighted Average Cost of Capital (WACC). The cost of equity may be examined within the Capital Asset Pricing Model (CAPM).
- The comparable sales approach may also employ a DCF framework. This is particularly necessary because such sales evidence as does exist is rarely immediately comparable on a convenient unit basis (e.g. $/hectare or $/m3). In order to effect adjustments it is necessary to consider relative forest maturity, and this leads back to DCF analysis. Ultimately the one parameter that can be distilled from sales and then extrapolated to a subject forest is the Implied Discount Rate (IDR). This is obtained from other contemporary transactions by relating constructed cash flows for the sold forests to their respective transaction values.

For this forest asset, it is Pöyry's opinion that the parties to any real or hypothetical transaction involving Jiangxi Yingran Forest Development Co.'s forest estate would not attribute weight to the cost method of valuation. This method has not therefore been further addressed in the forest valuation.

Both the comparable sales and income approaches have been considered for the forest asset valuation. Their application has shared the same forest estate model which provides the means of projecting future anticipated cash flows. The distinction between the approaches has been maintained in the basis for selecting the discount rate.

Pöyry has elected to use the income approach (DCF analysis) in modeling the projected cash flows arising from the existing tree crop, in coming to an estimate of the market value.

The scope of the forest asset market valuation is confined to the projected cash flows arising from the existing tree crop.

FOREST AREA

Jiangxi Yingran Forest Development Co., Ltd's forest estate in Yunnan was a total area of some 4 445 ha (66 682 mu). Around 4 027 ha (60 405 mu) was forest, 252 ha (3 780 mu) bush, and the remaining area of 167 ha (2 497 mu) bare land as shown in Figure S-1. The bush and bare land areas are not considered in this valuation. The species and age-class distribution in the forest are shown in Figure S-2.

Jiangxi Yingran Forest Development Co., Ltd has advised Pöyry that land use rights of average 70 years have been obtained in association with the forest crop assets.

Figure S-1:
Jiangxi Yingran Forest Development Co., Ltd's Land Area by Cover Type

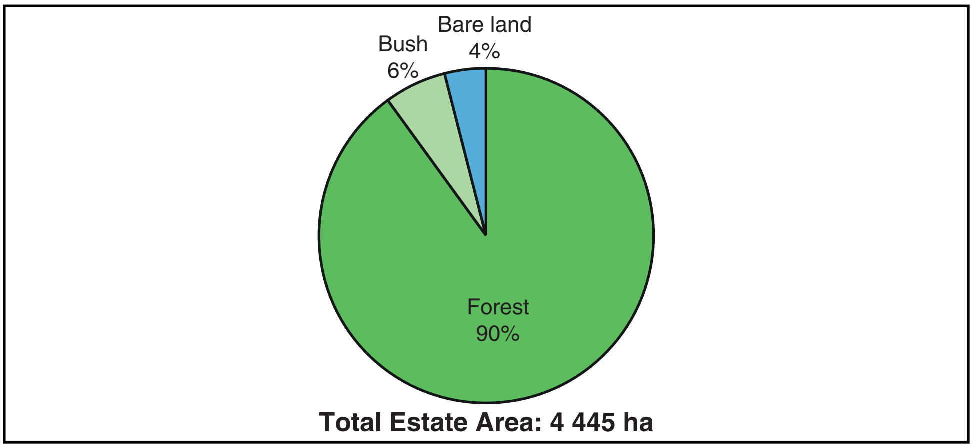

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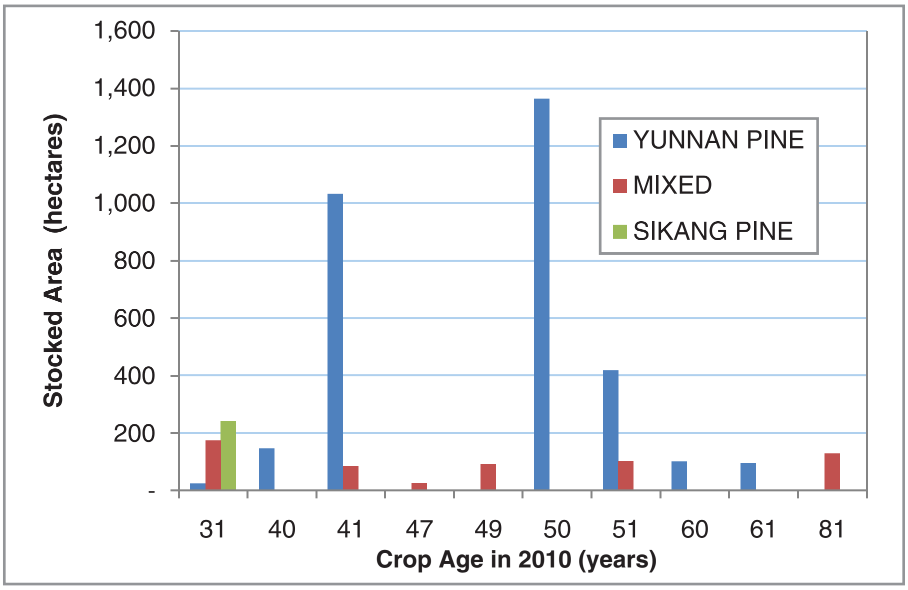
Figure S-2:
Area of Forest by Species and Age



FIELD INSPECTION, INVENTORY AND FOREST YIELD

In preparing the valuation, Pöyry has relied on inventory data provided by Jiangxi Yingran Forest Development Co., Ltd, the results of a field inspection and assessment at locations within the subject forest as selected by Pöyry, and other industry information.

The inventory supplied by Jiangxi Yingran Forest Development Co., provided Pöyry with data for use in the valuation. This included estimates of the total standing and recoverable volume (per unit area) of various species in the estate. The forest inspection process comprised driving to and walking through selected forest areas, and the establishment and measurement of more than 50 plots by Pöyry for comparison with data provided by Jiangxi Yingran Forest Development Co., Ltd.

The field inspection included discussions with the manager of a local saw mill, local Forest Bureau officers, and a visit to the Kunming log market.

Pöyry's inventory has been compared with the data provided by Jiangxi Yingran Forest Development Co. in terms of estimates of yield for the forest. The results shows that yield information provided by Jiangxi Yingran Forest Development Co. is reliable, if not somewhat conservative. Pöyry has chosen to make no adjustment to the total recoverable yield estimates as provided by Jiangxi Yingran Forest Development Co..

COSTS

Major cost elements associated with the valuation of the current crop are as follows:

Direct Forestry Costs

The only forestry costs that impact on the value of the current crop, are associated with the protection and maintenance of the forest crop and associated assets. This includes costs of forest security, fire prevention and pest control, and costs associated with the general management and maintenance of the forest, such as road and track maintenance and periodic visits by management staff.

Direct Harvesting and Cartage Costs

Direct harvesting and cartage costs are all of the direct costs incurred between the standing trees and processing of the logs to the point of sale. In China, most harvesting operations are labor-intensive. Trees are felled by axe or saw, cut to length in the forest and then carried to the roadside by hand. The harvest cost for Yunnan Pine & Sikang Pine (clearfall) has been assumed to be RMB155/m3 while Oak & Mixed Species attracts a higher cost of RMB207/m3. These costs are consistent with other current work and valuations conducted by Pöyry in China. The assumed cartage cost from the forest to the point of sale is in the range of RMB102-132/m3. The point of sale in every case is assumed to be at-mill-gate (AMG) which is also the price point assumed in the derivation of log prices.

Management and Administration Overhead

The Management and Administration Overhead cost of the forestry business is the total spend of the business excluding all direct forestry operations costs, the cost of land rentals, and costs associated with harvesting and marketing activity. Pöyry has significant experience in assessing forestry overhead costs on an international basis. Pöyry has applied an annual overhead cost of RMB75/ha, or RMB5/mu in this forest valuation. Unlike some forest estates, the Jiangxi Yingran Forest Development Co. estate is small and because of its size and restricted age-class or maturity distribution of crops, it is relatively simple to manage.

Forest Tax and Harvest Inventory & Survey Fee

A standard harvest tax of 10% of the forest roadside price (Price at mill gate — cartage cost) plus RMB9/m3 for Harvest Inventory & Survey fee has been applied in the valuation.

Land Rental or Cost of Land Use

According to Pöyry's discussions with Jiangxi Yingran Forest Development Co.'s staff and local Forest Bureau officers, there is no annual land rental for the forest estate that is the subject of this valuation. This is uncommon compared with most other regions in China.

Our estimate of value as provided below, presumes that there is no cost of land use. The fact or presumption that there is no annual land rental may have arisen because future land rentals (for the remaining life of the current crop) were paid in a lump sum at acquisition, along with, and perhaps undifferentiated from, that amount paid for the existing tree crop. This is more likely the case than the land having no economic value and requiring no rental payment for its use.

Accordingly then, the value provided is effectively for the combined assets of trees and land, or the forest.

We are aware however that land use rentals for forestry purposes in Yunnan province are currently quite low. Forest land rentals that we are familiar with in Yunnan are around RMB30-35/hectare/annum.

Applying a nominal rental of RMB50/hectare/annum to the cost and cash flow arising from this Jiangxi Yingran Forest Development Co. forest in Yunnan, reduces the value of that reported, by about 1%. In other words the cost of land use in this case does not have a material bearing on the value of the tree crop.

LOG PRICES

Log market analysis constitutes an important part of the valuation process. An NPV valuation is, by definition, based on expected future cash flows. Pöyry's approach to price estimation involves an examination of the underlying economic and market factors that influence log demand. In forecasting China's domestic log prices, Pöyry analyses a series of factors that affect log demand and supply, production costs and competitive forces.

Figure S-3 presents the development of imported softwood log prices from Russia (by species) and New Zealand into China, on a USD/m3 cost-and-freight (CNF) basis. Prices have increased considerably between 2003 and 2008, driven primarily by the continued significant demand growth in China, couple with high ocean freight rate. However, the global financial crisis downturn resulted in a share price decline during the late 2008 and early 2009. Prices recovered in 2009 and continued increasing in 2010 with renewed demand.

In addition, Figure S-4 shows the latest 2010 development of domestic softwood log prices at several major wholesale markets. Typically, log prices in China vary greatly depending on region, species and size. Domestic log prices are found to be broadly in line with the imported log price trend and are becoming increasingly internationalized.

Figure S-3:
China Imported Softwood Log Price Development

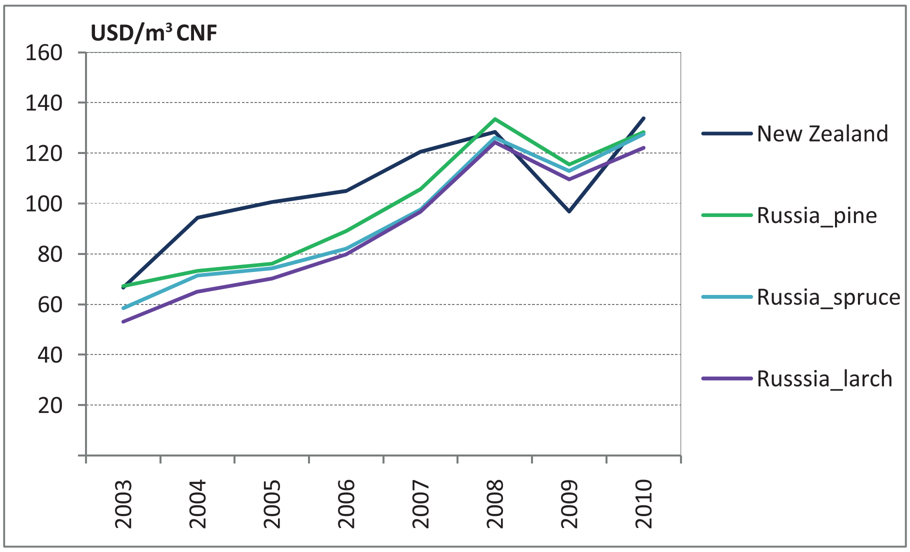
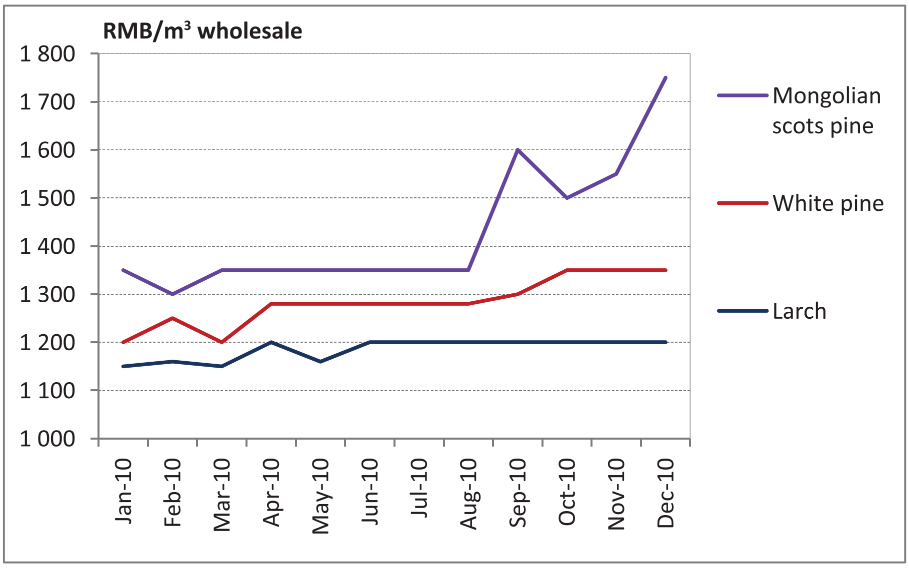


Figure S-3:
China Domestic Softwood Log Price Development



Pöyry has independently assessed market prices for the range of species and grades from data collected during the field inspection and Pöyry's China log price database. In the model, an increase in log prices of around 1%-2%/year has been applied over the next 4 years. The assumed log prices for the main species and grades are shown in Table S-1.

Table S-1:
Current and Future Log Prices Applied in Valuation Model

Species	Grade SED (cms)	Period 1	Period 2	Period 3	Period 4	Period 5 onwards
			(RMB/m3 at mill or market)			
Yunnan Pine	6–14	600	610	620	625	625
Yunnan Pine	14–26	840	860	880	895	900
Yunnan Pine	> 26	1,050	1,085	1,115	1,135	1,150
Sikang Pine	6–14	600	610	620	625	625
Sikang Pine	14–26	840	860	880	895	900
Sikang Pine	> 26	1,100	1,135	1,165	1,185	1,200
Oak	6–14	600	610	615	620	620
Oak	14–26	650	660	670	675	680
Oak	> 26	720	740	755	765	775
Mixed Species	6–14	530	535	545	545	550
Mixed Species	14–26	720	730	740	750	755
Mixed Species	> 26	800	820	840	850	860

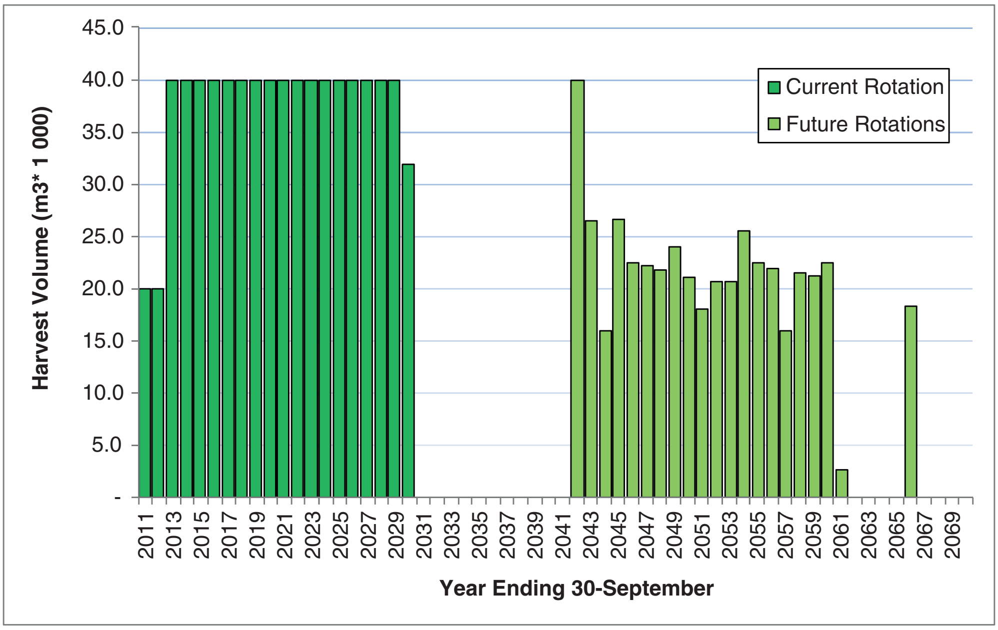
WOOD FLOW

The physical and financial descriptions of the forest, as outlined above, are brought together in the form of input to the Forest Estate Model from which wood flows and cash flows are generated. The Forest Estate Model employs a linear programming formulation that allows constraints to be specified and applied to the management and harvest of the forest estate. These constraints include the specification of:

- Minimum and maximum harvest ages by species
- Replanting assumptions in terms of crop types and expected future crop yields
- Levels of harvest volume (or area), in total or by defined parts of the forest estate, by species and location and period, and, where appropriate
- The minimum and maximum volumes of particular log grades that can go to certain destinations

The perpetual wood flows from the Jiangxi Yingran Forest Development Co., Ltd's forest estate are shown in Figure S-5. **The current rotation component of the overall wood flow on which the market valuation is based is also indicated.** The first two years' harvest is constrained to 20 000 m3. Beyond that, the level of harvest is constrained to less than 40 000 m3. In Pöyry's opinion, this is a practicable harvesting strategy and one that should not exceed market capacity and within AAC by county.

Figure S-5:
Wood Flow by Rotation



DISCOUNT RATE

A valuation based on a Net Present Value (NPV) approach requires the identification of an appropriate discount rate. In selecting the rates there are two broad approaches:

- Deriving the discount rate from first principles: The most common expression of this approach turns first to the Weighted Average Cost of Capital (WACC). This recognizes the costs of both debt and equity. The cost of equity may be derived using a Capital Asset Pricing Model (CAPM) method.
- A second approach is to derive implied discount rates from transaction evidence.

Pöyry commissioned Associate Professor Alastair Marsden of Auckland UniServices Limited to prepare a report on the cost of capital for a generic forest investment located in China. The range of rates suggested by the WACC/CAPM approach, at 7.1% to 12.8%, as applied to pre-tax cash flows.

Pöyry has very little implied discount rate data for China. As the commercial plantation forest industry develops and forests are transacted, empirical evidence from which to derive implied discount rates is expected to arise. By comparison, in Australia and New Zealand analyses of implied discount rates has become a standard means for comparing transaction results and deriving discount rates to apply in forest valuation. Currently, NPV or DCF based valuation of forests in Australasia typically sees discount rates of 8.5 to 9.0% applied to pre-tax cash flows.

However, compared with New Zealand and Australia, commercial forestry activity and investment in China is relatively new and still developing. It is Pöyry's opinion that, for many forest investors, investing in plantation forestry in China would be considered a riskier proposition than investing in the industry in Australia or New Zealand.

Given the current application of discount rates in Australasia, and the comparison of risk elements, in Pöyry's judgment, an additional 2.5% to 3.0% would seem reasonable to apply to the Jiangxi Yingran Forest Development Co. forest estate.

Pöyry has chosen to apply a discount rate of 11.5% to the pre-tax cash flows forecast to arise from the management and harvest of the current crops of the Jiangxi Yingran Forest Development Co. Ltd's forest estate.

In selecting such a rate we have been inclined to recognize that investors in forestry in China will inherently be taking a long term view, and do have grounds for cautious optimism on the forest industry's future there. The fundamental factors that affect forestry performance are favorable. Importantly too, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. A discount rate of 11.5% provides a margin of around 7.0% over Treasury Bond 'risk-free' real rates that have prevailed in western economies over the past 20 years.

MARKET VALUATION

Based on the previously explained assumptions, Pöyry's estimate of the market value of the Jiangxi Yingran Forest Development Co., Ltd's Yunnan forest estate as at December 31, 2010 is **RMB151.6 million.**

As far as Pöyry is aware, this estimate of market value of the forest has been derived in a manner consistent with NPV based valuation as described in IAS 41 — Agriculture. This is a global standard for the reporting of agricultural activity prepared by the International Accounting Standards Board (IASB).

SENSITIVITY

Table S-6 below shows firstly the sensitivity of the estimate of market value to changes in the discount rate, and secondly, at an 11.5% discount rate, the sensitivity of the estimate of market value to changes in log price.

Table S-6: Sensitivity Analyses

Discount Rate	at	Market Value (millions)
Reduced	9.5%	RMB175
Base Case	**11.5%**	**RMB152**
Increased	13.5%	RMB134

Log Price	at	Market Value (millions)
Reduced	-10.0%	RMB126
Base Case		**RMB152**
Increased	+10.0%	RMB178

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Date: May 16, 2011

CHINA FLOORING HOLDING COMPANY LIMITED

Valuation of Natural Forest Concessions in Peru as at December 31, 2010

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PREFACE

Nature America S.A.C. (N.A.), a wholly-owned subsidiary of China Flooring Holding Company Limited, commissioned Pöyry to undertake a market valuation of its forest estate in Peru in 2009. The valuation report date was as at September 30, 2009. The Company again commissioned Pöyry to undertake a market valuation of the same estate as at December 31, 2010.

This report contains the opinion of Pöyry as **to the combined value of the two natural forest concessions which belong to Nature America in the Loreto state of Peru as at December 30, 2010.** The findings and conclusions presented here are a summary of Pöyry's accumulated project experience with the estate over the two years.

This findings and conclusion in this report are subject to the assumptions and limiting conditions set out in the following pages and to any further qualifications referred to in the body of the full market valuation report.

See Young Ho	Edward Warren
VICE PRESIDENT	**CONSULTANT**

SUMMARY

Pöyry, on behalf of Nature America S.A.C. (N.A.), has undertaken an assessment and valuation of two adjacent forestry concessions (known as "**Pedro**" and "**Elizabeth**") in Peru, South America, as at December 1, 2010. Pöyry has previous experience with these assets, having valued them in 2009.

VALUATION METHODOLOGY

It is recommended practice when appraising real property to consider three main approaches:

- The comparable sales method (i.e. referencing the results of market transactions of other properties similar to the subject property).
- The income method (i.e. assessing the present value of the anticipated future net earnings stream).
- The costs method (i.e. acknowledging what it would cost to recreate the asset in its current condition).

It then rests with the appraiser's professional judgment to assess what weighting should be applied to the results from the respective methods.

The assessment of forest investments generally requires the examination of cash flows over a long time period. This leads to the application of discounted cash flow analysis techniques (DCF) as an indispensable part of the appraisal process. Each of the three main approaches may come to be applied within a DCF framework.

Thus;

- The cost method may be applied with wholly young stands and especially those where relying on a discounting approach alone produces values unlikely to be supported by the market. In valuing the young stands reference is made to their costs of establishment. In order to recognize the forest owner's entitlement to a return on investment, a compounding approach may be applied, requiring the selection of a suitable compounding rate.
- The income method employs a conventional discounting approach. In referencing wider evidence of expectations of a return on capital, one common basis for the discount rate is the Weighted Average Cost of Capital (WACC). The cost of equity may be examined within the Capital Asset Pricing Model (CAPM).
- The comparable sales approach may also employ a DCF framework. This is particularly necessary because such sales evidence as does exist is rarely immediately comparable on a convenient unit basis (e.g. $/hectare or $/m3). In order to effect adjustments it is necessary to consider relative forest maturity, and this leads back to DCF analysis. Ultimately the one parameter that can be distilled from sales and then extrapolated to a subject forest is the Implied Discount Rate (IDR). This is obtained from other contemporary transactions by relating constructed cash flows for the sold forests to their respective transaction values.

It is Pöyry's opinion that the parties to any real or hypothetical transaction involving N.A.'s forest assets in Peru would not attribute weight to the cost method of valuation. This method has not therefore been further addressed in this valuation.

Both the comparable sales and income approaches have been considered for the forest asset valuation. Their application has shared the same forest estate model which provides the means of projecting future anticipated cash flows. The distinction between the approaches has been maintained in the basis for selecting the discount rate.

Pöyry has elected to use the income approach (DCF analysis) in modeling the projected cash flows arising from the existing tree crop, in coming to an estimate of the market value as at December 31, 2010.

The forest valuation excludes volume arising from areas harvested beyond the first 40 year selective cut cycle (current rotation only).

In the valuation of the forest concessions, it was assumed that a portion of forest output will be sold on the local market as logs and a portion will be converted to sawn timber in an existing outsourced sawmill in Yurimaguas for export to either Nature Flooring's flooring factories in China or related markets in USA. The sawmill does not form a part of the asset valuation as it is an outsourced entity that only converts logs to sawn timber at a negotiated rate per cubic meter of output. Since there is an established market for the converted logs (sawn timber), Pöyry regards the inclusion of the benefits of this processing operation as a valid approach in determining a fair market value for the forest asset.

FOREST AREA

The two concessions are known as **"Pedro" and "Elizabeth", with gross areas of** 24 373 ha and 21 974 ha, respectively or 46 347 ha in total. After reductions for reserves and Pöyry's estimate of non-productive area, **the net productive area for the concessions is 87% of the gross area, or 40 322 ha.**

According to copies of the ownership transfer documents, called "resolutions", provided by Nature Flooring, the harvesting license is valid for 40 years with an option to renew.

Table S-1:
Forest Concession Areas

Concession	GFMP Total Area (ha)	GFMP Reserve Area (ha)	Pöyry Non-productive Area (ha)	Pöyry Net Productive Area (ha)
Pedro	24,373	1,933	1,235	21,204
Elizabeth	21,974	1,505	1,352	19,118
Total	**46,347**	**3,438**	**2,587**	**40,322**

The 100 or so species are classified into the following four categories. Categories 1 - 3 cover the 32 commercial species based on relative current commercial value and N.A.'s targeting markets for the respective species. Category 1 is the most valuable, followed by Categories 2 and 3. Category 4 is currently regarded as having no commercial value.

The cash flow model upon which the valuation is based assumes that Category 4 is not cut. This is mainly because the cost of getting the logs to market exceeds the likely price for the logs even if there was a market (that does not currently exist) for Category 4.

FIELD INSPECTION, INVENTORY WORK AND FOREST YIELD

In preparing the valuation, Pöyry has relied on inventory data provided by Nature America S.A.C. (N.A.), the results of a field inspection and assessment at locations within the subject forest as selected by Pöyry, and other industry information.

During Pöyry's field inspection of the two forest concessions in 2009 and 2010, which included both ground and aerial inspection, Pöyry was able to observe the overall condition of the forest, and its suitability for commercial management and harvest.

Aerial assessment indicated a dense and healthy forest canopy, and ground assessment provided confirmation of the reasonableness of inventory data made available to Pöyry. This inventory data is the basis of the estimates of harvest volume, by species and log size class over the duration of the concession. The assessments also allowed Pöyry to estimate infrastructure costs that will be required in the management and harvest of the forest.

ENVIRONMENTAL AND SOCIAL IMPACT

Forest resource operations in indigenous territories, both small-scale and large, can have a significant impact upon the environment, health, resource base and quality of life of indigenous peoples.

Logging in tropical natural forest has a long-term impact on the structure and composition of the forest. It is suggested that to preserve the current species mix of the Elizabeth and Pedro concessions, wood removal should be based on the current species structure. That means harvesting should not be focused on commercially-valuable species only.

One of the positive aspects of N.A. plans is that they intend to build processing facilities locally to utilize the currently little to no commercial value species to produce veneer for plywood products.

There is an inextricable link between the survival of the forest and the preservation of traditional indigenous cultures. Preserving indigenous cultures, and consequently rainforest ecosystems, begins by fortifying traditional borders and establishing recognized protected areas. Operating concessions in a sustainable manner as required by FSC certification would reduce the risk of forest uncontrolled harvesting.

We assume, the Company will continue to focus on supporting environmentally-friendly sustainable development. This would also establish and manage protected areas, support community-based resource management projects, build human capacity and expand knowledge through research.

COSTS

Major cost elements associated with the valuation are as follows:

Road and Bridge building

In order to harvest the forest, additional roading is required. The total road construction cost is estimated to be USD278 643 in the first year and maintenance cost USD69 812. As the roads need to be extended there will be an annual new road construction cost of USD68 563 from the 2nd year on. Road maintenance is needed for the entire main road and the new secondary road constructed for the year, and corresponding costs will be cumulative as additional lengths of road are constructed each year.

It is estimated that USD186 329 is required in the 1st year for construction of bridges. From the 2nd year further bridge construction will be required as the operation extends into the depth of the concessions.

Direct Harvesting and Cartage Costs

Pöyry has derived the harvesting and transport costs by combining estimates of machine productivity and running costs in conjunction with transport lead distances. Delivered wood cost includes the cost of labor, equipment and tool maintenance, fuel and consumables, and other variable expenditure associated with the felling, extraction, and transportation of logs to the sawmill. in.

Total harvesting and transport cost is estimated at USD39/m3 log.

Management and Administration Overhead

The sales, general and administration (SG&A) costs associated with the forestry business in Peru (including field management and the Lima headquarters) has been estimated by Pöyry on an annual basis. Pöyry estimates the total SG&A cost associated with field and HQ management personnel at USD113 264/annum. A further USD33 979/annum has been costed for general office running costs, including office rental, utilities etc.

A "selling, marketing expense" of 2% of the timber sale price has been assumed to cover the estimated commission fee paid to the marketer/exporter. This is based on Pöyry's experience in forest the industry business and is regarded as a reasonable level. Other miscellaneous indirect Costs, including inventory, planning and FSC certification have been included in the cash flow.

Inventory and planning costs associated with the forestry business are also factored into Pöyry's valuation.

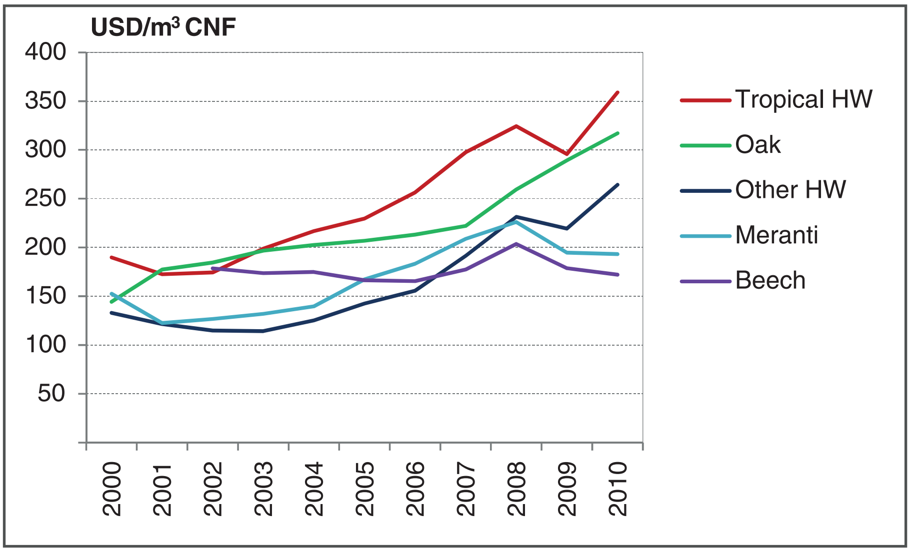
Land Rental or Cost of Land Use

Pöyry estimates an ongoing annual cost of land rental of USD0.55/m^3/annum, or USD20 393/annum over the total net stocked concession area.

PRICES

Figure S-1 presents the development of imported hardwood log prices into China, on a USD/m3 cost-and-freight (CNF) basis. Prices have increased considerably between 2000 and 2008, driven primarily by the continued significant demand growth in China, coupled with high ocean freight rate. However, the global financial crisis downturn resulted in a price decline during late 2008 and early 2009. Prices have generally recovered in 2009 and continued increasing in 2010 with renewed demand.

Figure S- 1:
China Imported Hardwood Log Price Development



The market outlook for species found in Peru's tropical forests remains positive, with a potential developing shortage of heavy tropical hardwood species and strong demand from China likely to support a positive pricing trend over the short-medium term. Pöyry has applied a forecast 2% annual real price increase over the period January 1, 2011 — December 31, 2015, after which prices are assumed to remain flat in real terms.

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Table S-2:
Log and Sawn Timber Prices Employed in this Valuation (USD/m³)

Category	Species (Spanish Name)	2010	2011	2012	2013	2014	2015+
Category 1 (Sawn timber Price) FOB-Peru	*Aguano masha*	711	725	739	754	769	784
	Ana caspi	761	776	792	808	824	840
	Azucar huayo	1,015	1,035	1,056	1,077	1,099	1,121
	Cedro	914	932	950	969	989	1,009
	Chontaquiro	711	725	739	754	769	784
	Estoraque	1,269	1,294	1,320	1,346	1,373	1401
	Huangana casha	761	776	792	808	824	840
	Machimango	406	414	422	431	439	448
	Mari mari	711	725	739	754	769	784
	Mashonaste	711	725	739	754	769	784
	Ochavaja	711	725	739	754	769	784
	Pumaquiro	863	880	898	916	934	953
	Quinilla	761	776	792	808	824	840
	Requia	508	518	528	539	549	560
	Shihua huaco	1,015	1,035	1,056	1,077	1,099	1,121
	Tahuari	1,066	1,087	1,109	1,131	1,154	1,177
	Yacushapana	761	776	792	808	824	840
Category 2 (Sawn timber Price) FOB-Peru	*Cumala*	305	311	317	323	330	336
	Huayruro	457	466	475	485	494	504
	Tornillo	457	466	475	485	494	504
Category 3 (Log Price) AMG-Peru	*Alcanfor* *Cachimbo* *Catahua* *Copaiba* *Lupuna* *Lupuna colorada* *Marupa* *Moena* *Pashaco* *Quillobordon* *Zapote*	102	104	106	108	110	113
Category 4	Currently there is no local market for the category, N.A. plans to develop veneer product for the category.						

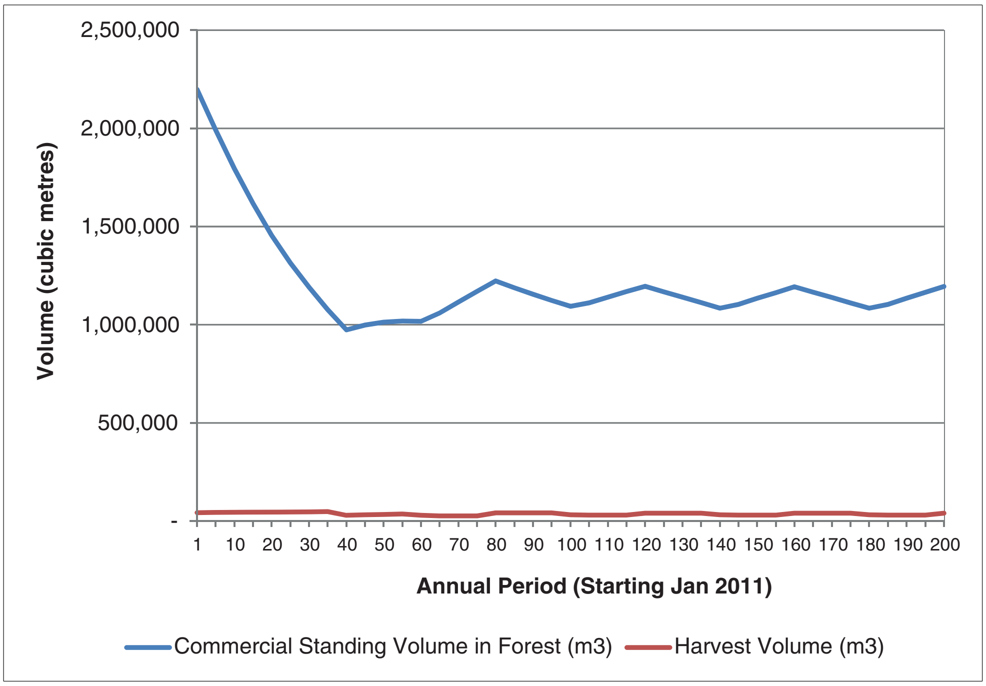
As appropriate, the costs of log processing (sawmilling), materials transport, port costs etc, have been accounted for in the cash flow model to effectively bring the net revenue for logs back to a stumpage basis (i.e. value 'standing in forest')

WOOD FLOW

The physical forest description (stocked area and yield) has been used in the modeling system called "MYRLIN" to model the sustainable harvest from the forest.

The total standing volume, and the harvest volume, both over a 200 year period are shown in Figure S-2, below. A 200 year period has been modelled to indicate the long-term sustainability or potential of the harvest, even though the concession rights, and the cash flow underlying the valuation are for just 40 years.

Figure S- 2:
Forecast Wood Flow (note valuation is based only on first 40 year period)



The physical wood flow, combined with product prices and costs of forest management and harvesting, give rise to a cash flow that is forecast as arising from the forest. This cash flow is then discounted to generate the discounted cash flow or DCF, and the net present value, or NPV.

DISCOUNT RATE

A valuation based on a Net Present Value (NPV) approach requires the identification of an appropriate discount rate. In selecting the rates there are two broad approaches:

- Deriving the discount rate from first principles: The most common expression of this approach turns first to the Weighted Average Cost of Capital (WACC). This recognizes the costs of both debt and equity. The cost of equity may be derived using a Capital Asset Pricing Model (CAPM) method.
- A second approach is to derive implied discount rates from transaction evidence.

A review of appropriate discount rates indicates that a range of rates from 12 to 16% applied to pre-tax cash flows is appropriate to recognize the risks associated with operating a venture of this type in Peru.

Pöyry has assumed a 12%/a real cost of capital discount rate applying to pre-tax cash flows for the base case valuation.

MARKET VALUATION

Based on the previously explained assumptions, Pöyry has estimated the market value of the N.A. forest assets in Peru as at December 31, 2010 to be **USD14.3 million.**

As far as Pöyry is aware, this estimate of market value of the forest has been derived in a manner consistent with NPV based valuation as described in IAS 41 — Agriculture. This is a global standard for the reporting of agricultural activity prepared by the International Accounting Standards Board (IASB).

SENSITIVITY

Table S-3 below shows firstly the sensitivity of the estimate of market value to changes in the discount rate, and secondly, at a 12.0% discount rate, the sensitivity of the estimate of market value to changes in log price.

Table S-3:
Sensitivity Analyses

Discount Rate	at	Peru
		(millions)
Reduced	10.0%	USD17.6
Base Case	**12.0%**	**USD14.3**
Increased	14.0%	USD11.8

Log Price	at	Peru
.		(millions)
Reduced	-10.0%	USD13.8
Base Case		**USD14.3**
Increased	+10.0%	USD14.8

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

No.	Forest Certificate No.	Area(Mu)	Starting Date	Expiry Date
1	Ning Xian Lin Zheng Zi (2008) No.0008000796	2035	2010.02.03	2078.10.24
2	Ning Xian Lin Zheng Zi (2008) No.0008000087	2789.7	2010.02.03	2078.12.04
3	Ning Xian Lin Zheng Zi (2008) No.0008000787	3530.2	2010.02.03	2078.10.25
4	Ning Xian Lin Zheng Zi (2008) No.0008000792	4218	2010.02.03	2078.10.24
5	Ning Xian Lin Zheng Zi (2008) No.0008001237	1476.9	2010.02.03	2078.11.30
		1255.7	2010.02.03	2078.11.30
6	Ning Xian Lin Zheng Zi (2008) No.0009001874	4214.9	2010.02.03	2078.11.08
7	Ning Xian Lin Zheng Zi (2008) No.0014000165	2186.5	2010.02.03	2078.09.20
8	Ning Xian Lin Zheng Zi (2008) No.0014001627	2422.7	2010.02.03	2078.09.26
9	Ning Xian Lin Zheng Zi (2008) No.000D000088	74.5	2010.05.05	2077.11.18
		1241.7	2010.05.05	2077.11.18
10	Ning Xian Lin Zheng Zi (2008) No.000D000085	1354.7	2010.05.05	2077.11.18
		93.8	2010.05.05	2077.11.18
11	Ning Xian Lin Zheng Zi (2008) No.000D000086	270.6	2010.05.05	2077.11.18
		3744.4	2010.05.05	2077.11.18
12	Ning Xian Lin Zheng Zi (2008) No.0004000756	2533.2	2010.05.05	2078.09.01
13	Ning Xian Lin Zheng Zi (2008) No.0004000725	3388	2010.05.05	2078.09.01
14	Ning Xian Lin Zheng Zi (2008) No.0004002226	3210.4	2010.05.05	2078.09.01
15	Ning Xian Lin Zheng Zi (2008) No.0004002227	2421.3	2010.05.05	2077.11.18
16	Ning Xian Lin Zheng Zi (2008) No.0010001415	794.8	2010.07.08	2060.06.16
17	Ning Xian Lin Zheng Zi (2008) No.0010001416	194.6	2010.07.08	2060.06.16
18	Ning Xian Lin Zheng Zi (2008) No.0010001417	77.2	2010.07.08	2060.06.16
19	Ning Xian Lin Zheng Zi (2008) No.0010001418	129	2010.07.08	2060.06.16
		409.8	2010.07.08	2060.06.16
20	Ning Xian Lin Zheng Zi (2008) No.0010001419	187	2010.07.08	2060.06.16
		89.6	2010.07.08	2060.06.16
21	Ning Xian Lin Zheng Zi (2008) No.0010001420	131.6	2010.07.08	2060.06.16
		683.9	2010.07.08	2060.06.16
		51.2	2010.07.08	2060.06.16
22	Ning Xian Lin Zheng Zi (2008) No.0010001423	28.9	2010.07.08	2060.06.16
		67.8	2010.07.08	2060.06.16
		48	2010.07.08	2060.06.16
23	Ning Xian Lin Zheng Zi (2008) No.0010001424	539	2010.07.08	2060.06.16
24	Ning Xian Lin Zheng Zi (2008) No.0010001425	319.9	2010.07.08	2060.06.16
25	Ning Xian Lin Zheng Zi (2008) No.0010001427	55.6	2010.07.08	2060.06.16
		208.1	2010.07.08	2060.06.16
26	Ning Xian Lin Zheng Zi (2008) No.0010001428	6.2	2010.07.08	2060.06.16
		85.3	2010.07.08	2060.06.16
27	Ning Xian Lin Zheng Zi (2008) No.0010001429	78.9	2010.07.08	2060.06.16
28	Ning Xian Lin Zheng Zi (2008) No.0010001430	161.6	2010.07.08	2060.06.16
		73.8	2010.07.08	2060.06.16
29	Ning Xian Lin Zheng Zi (2008) No.0010001431	220.8	2010.07.08	2060.06.16
		6.1	2010.07.08	2060.06.16
30	Ning Xian Lin Zheng Zi (2008) No.0010001433	109.3	2010.07.08	2060.06.16
		32.5	2010.07.08	2060.06.16
31	Ning Xian Lin Zheng Zi (2008) No.0010001435	70.5	2010.07.08	2060.06.16
32	Ning Xian Lin Zheng Zi (2008) No.0010001437	17.7	2010.07.08	2060.06.16
		59.7	2010.07.08	2060.06.16

No.	Forest Certificate No.	Area(Mu)	Starting Date	Expiry Date
		918.3	2010.07.08	2060.06.16
33	Ning Xian Lin Zheng Zi (2008) No.0010001438	27.4	2010.07.08	2060.06.16
		52.2	2010.07.08	2060.06.16
34	Ning Xian Lin Zheng Zi (2008) No.0010001439	24.5	2010.07.08	2060.06.16
		12.9	2010.07.08	2060.06.16
35	Ning Xian Lin Zheng Zi (2008) No.0010001440	15.6	2010.07.08	2060.06.16
		105	2010.07.08	2060.06.16
36	Ning Xian Lin Zheng Zi (2008) No.0010001443	162.6	2010.07.08	2060.06.16
37	Ning Xian Lin Zheng Zi (2008) No.0010001694	1432.7	2010.07.08	2078.07.08
38	Ning Xian Lin Zheng Zi (2008) No.0010001698	1051.1	2010.07.08	2060.06.16
39	Ning Xian Lin Zheng Zi (2008) No.0010001704	283.3	2010.07.08	2060.06.16
40	Ning Xian Lin Zheng Zi (2008) No.0010001705	170.5	2010.07.08	2060.06.16
41	Ning Xian Lin Zheng Zi (2008) No.0010001811	923.6	2010.07.08	2078.11.03
42	Ning Xian Lin Zheng Zi (2008) No.0010002233	79	2010.07.08	2060.06.16
43	Ning Xian Lin Zheng Zi (2008) No.0010002234	135	2010.07.08	2060.06.16
44	Ning Xian Lin Zheng Zi (2008) No.0010002235	191.4	2010.07.08	2060.06.16
		95.4	2010.07.08	2060.06.16
45	Ning Xian Lin Zheng Zi (2008) No.0010002236	220.8	2010.07.08	2060.06.16
46	Ning Xian Lin Zheng Zi (2008) No.0010002237	468.9	2010.07.08	2060.06.16
47	Ning Xian Lin Zheng Zi (2008) No.0010002238	33	2010.07.08	2060.06.16
		46.9	2010.07.08	2060.06.16
48	Ning Xian Lin Zheng Zi (2008) No.0010002240	193.7	2010.07.08	2060.06.16
		192	2010.07.08	2060.06.16
49	Ning Xian Lin Zheng Zi (2008) No.0010002241	323.9	2010.07.08	2060.06.16
		61.1	2010.07.08	2060.06.16
		63.7	2010.07.08	2060.06.16
50	Ning Xian Lin Zheng Zi (2008) No.0010002242	36.6	2010.07.08	2060.06.16
		1182.6	2010.07.08	2060.06.16
51	Ning Xian Lin Zheng Zi (2008) No.0010002243	293.7	2010.07.08	2060.06.16
		1597.4	2010.07.08	2060.06.16
		1162	2010.07.08	2060.06.16
52	Ning Xian Lin Zheng Zi (2008) No.0010002244	59.7	2010.07.08	2060.06.16
		146.6	2010.07.08	2060.06.16
53	Ning Xian Lin Zheng Zi (2008) No.0010002245	626.7	2010.07.08	2060.06.16
54	Ning Xian Lin Zheng Zi (2008) No.0010002249	180.1	2010.07.08	2060.06.16
55	Ning Xian Lin Zheng Zi (2008) No.0010002257	1432.6	2010.07.08	2060.06.16
56	Ning Xian Lin Zheng Zi (2008) No.0010002872	3182.8	2010.07.08	2078.10.28
57	Ning Xian Lin Zheng Zi (2008) No.0010002873	2096.2	2010.07.08	2078.10.28

* Note According to the Forest Certificates, the Group has obtained the forestry land use right, forestry tree ownership right and forestry tree use right for its Yunnan forests listed in the above table.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on July 27, 2007 under the Cayman Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on May 3, 2011. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Cayman Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Cayman Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Cayman Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Cayman Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Cayman Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Cayman Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Cayman Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of

Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account." At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Cayman Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Cayman Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Cayman Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from August 22, 2007.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman

Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Cayman Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

PRC LAWS AND REGULATIONS

Our Group's wood flooring businesses are mainly based in the PRC and we have acquired harvesting rights in a quantity of forests lands in Yunnan Province, PRC. The PRC government imposes extensive regulations upon wood flooring industry and forest resources operation. This section sets forth a summary of the most significant PRC laws and regulations that affect our business and the industry in which we operate.

Laws and Regulations relating to Foreign Investment in Wood Flooring Industry

Our Group engages in wood flooring production in China and is therefore subject to the Chinese laws and regulations in relation to foreign invested enterprises.

Guidance on foreign investment in different industries in the PRC can be found in the Foreign Investment Industrial Guidance Catalog (《外商投資產業指導目錄》) (the "Catalog") jointly issued by the NDRC and the MOFCOM and such catalog will be amended and re-promulgated from time to time by these two government authorities. Industries generally fall into four categories for the purposes of guiding foreign investment: encouraged, permitted, restricted and prohibited. The Catalog only lists out specific industries falling under the encouraged, restricted and prohibited categories and what is not listed there would be considered the permitted category. The current effective version of the Catalog was issued on October 31, 2007 and according to the 2007 Catalog, wood flooring production should belong to the permitted category, and comprehensively utilizing the "three residues" of forest (including logging residues, bucking residues and processing residues), inferior quality or small-sized lumber, firewood and bamboo belongs to the encouraged category.

Laws and Regulations relating to Wood Flooring Production

The Regulations of the PRC on the Administration of Production Licenses for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》), which were promulgated by the State Council on July 9, 2005 and became effective on September 1, 2005, put in place a production licensing system for enterprises producing products as listed in the Industrial Production Catalog (《實行生產許可證制度管理的產品目錄》). According to the latest Industrial Production Catalog issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, or the AQSIQ (國家質量監督檢驗檢疫總局) on August 25, 2010, production of artificial boards, such as engineered flooring, solid wood flooring, bamboo flooring, laminated flooring, plywood, oriented wood chipboard, medium density fiberboard, core-board and decorative veneered wood-based panels should be subject to the production licensing system.

Laws and Regulations relating to Forest

The principle regulations governing forestry resources in China include:

- The Forestry Law of the PRC (《中華人民共和國森林法》), which became effective on January 1, 1985 and was amended on April 29, 1998;

- The Implementing Regulations for the Forestry Laws (《中華人民共和國森林法實施條例》), issued and became effective on January 29, 2000;
- The Decision of the Central Committee of the Communist Party of China and the State Council about Speeding up Forestry Development (《中共中央、國務院關於加快林業發展的決定》), became effective on June 25, 2003;
- The Key Elements of the Policies in Forestry Industry (《林業產業政策要點》), issued and became effective on August 10, 2007;
- The Revitalization Plan of Forestry Industry (2010-2012) (《林業產業振興規劃》), issued and became effective on October 29, 2009; and
- The Land Administration Law of the PRC (《中華人民共和國土地管理法》), which became effective in January 1, 1987, and was amended in 1988 and 2004.

PRC laws recognize the following four types of rights with respect to a forest in China: forestry land ownership, forestry land use rights, forestry tree ownership rights and forestry tree use rights.

Protective Measures for Forest Resources

China adopts the following measures to protect forest resources:

- to impose of annual quota of felling trees and encourage forest planting in order to expand the area of forest coverage;
- to provide financial assistance or long-term loans to collective organizations and individuals engaged in tree planting and forest cultivation;
- to encourage comprehensive utilization and conservation of timber and encourage the development and utilization of timber substitutes;
- to collect fees for the exclusive use of tree planting and forest cultivation;
- to require departments of coal mining and paper-making industries to draw certain amount of funds based on the output of coal, paper pulp and paper, for the exclusive use of cultivating timber forests which will be used for coal-mining and paper-making; and
- to establish forest fund system.

Administration and Transference of Forests

The Forestry Law of the PRC and the Implementing Regulations for the Forestry Laws implement a registration system for forest, forestry trees and forestry land. Pursuant to relevant PRC laws and regulations, all forest, forestry trees and forestry land, whether owned by the state, the collectives, or individuals shall be registered with local people's governments at or above the county level. Relevant governments are responsible for compiling rosters and issuing certificates to confirm the ownership or use rights of the forest, forestry trees or forestry land. All forest land in the PRC is either owned by the state or the collectives. Ownership of forestry land is not transferable in the PRC. However, certain kinds of forest land use rights, forest trees use rights, and forest trees ownership rights are transferable as long as the transfer is conducted in accordance with PRC laws and regulations.

According to PRC laws and regulations, the following types of forests, trees and forest land use right may be transferred, and may be appraised and converted as shares or used as funds or conditions for joint venture or cooperation of forestation and management of forests as well, provided that such forest land can not be changed into non-forest land:

- timber forests, economic forests and firewood forests;
- the right to use the land of timber forests, economic forests and firewood forests;
- the right to use the cut-over land or brulee of timber forests, economic forests and firewood forests; and
- other types of forests, trees or forest land use right stipulated by the State Council.

The Central Committee of the Communist Party of China and the State Council jointly promulgated the Opinions of Comprehensively Implementing Reformation of Collective-owned Forest Rights (《關於全面推進集體林權制度改革的意見》) on June 8, 2008, which provides transfer principles of collective-owned forest resources. According to the Opinions, the operating right of forest land and ownership of trees of such forest land may be transferred to other entities or individuals, provided that the forest land use purpose must not change. Further more, such transfer shall be publicly notified in advance in the collective organization and obtain consents of members of such collective organization. The parties in relation to the contracting of collective forestry land shall enter into a written agreement to clarify the liabilities and responsibilities of tree planting and forest cultivation, forest protection, prevention of forest fire and forest diseases and insect pests.

The Logging, Transportation and Business Operation of Forests and Trees

The Chinese government has enacted an extensive regulatory scheme governing the operation of business with respect to the logging, transportation and other relevant business operations of forests and trees. The primary regulator with oversight over the general business operation of forests and trees in China is State Forestry Administration (國家林業局) and its provincial and local branches. Enterprises engaging in the business of forestry in China must comply with strict licensing and approval requirements.

The key relevant licensing and approval requirements include:

- **Logging Permit**

Pursuant to PRC Forestry Law and its implementing regulations, any entities or individuals shall apply for logging permit before logging, except rural inhabitants who fell down their own trees on their own plots or around their houses. Any entities or individuals must strictly comply with the requirements provided in the Logging Permit, including the logging location, the tree species, logging amounts, the logging terms, etc.

In addition, the State draws up annual quota of felling trees and annual timber production plan, and the annual timber production shall not exceed the annual quota of felling. The Implementing Regulations for the Forestry Laws further stipulates that, for foreign invested plantation projects, the felling quota shall be allocated separately by provincial forestry departments within the annual felling quota approved by the State Council. According to the Implementation Regulations for the Forestry Laws, annual quotas for felling non-state-owned trees shall first be formulated at the county level for aggregation, balancing and verification by the competent forestry departments of provinces before the proposed annual quotas could be submitted to the State Council for approval. The annual quotas for felling trees shall be approved by the State Council every five years.

Furthermore, based on various usages, forests in the PRC have been divided into non-commercial forests and commercial forests. Non-commercial forests are mainly used for scientific research, environmental protection or other purpose other than commercial usage, and it is not allowed to log or destroy non-commercial forests. Commercial forests include timber forests, firewood forests and economic forests, which are permitted to logging and used for commercial purpose. As confirmed by our Company, most of our forests located in Yunnan province are timber forests and few are firewood forests.

- **Reforestation Requirement**

Entities or individuals that are to fell trees shall complete the task of reforestation in terms of the area, number of trees, types of trees and time limit as provided for in the felling licenses, and the area of reforestation and the number of trees required to be planted shall be no smaller than the original area and the number of trees felled. For those who has not complete the task of reforestation of last year, corresponding government authorities will deny to issue new logging permits to such entities or individuals.

- **Transportation Permit**

To transport timber out of a forest region, entities and individuals shall obtain transport permits from competent forestry departments, except for the timber under unified distribution by the State.

- **Timber Operation Certificate**

Any entity engaged in the timber business (including timber processing) in forestry areas must obtain an approval from the forestry bureau of the local government at the county level or above. Certain provinces impose further requirements for granting permission to engage in the timber business within certain areas, which means that any entity engaged in the timber operations and processing business within such provinces (not limited to the forestry areas) may need to obtain a timber operation permit from relevant forestry bureau.

- **Timber Exportation Limitation**

The State prohibits and restricts the export of rare trees and their products and derivatives. The catalogue of such trees, products and derivatives and the restricted annual amount for their export shall be complied by the competent forestry department in conjunction with other relevant departments, and both shall be submitted to the State Council for approval.

According to the Forestry Law, the catalogue of rare species shall be approved by the State Council. A Circular Regarding Protection of Rare Species (《林業部關於保護珍貴樹種的通知》) was issued on October 8, 1992, together with the National Rare Species Catalogue (《國家珍貴樹種名錄》), which provided detailed scope of rare species. However, the above Circular and the Catalogue have been abolished by the State Forestry Administration on April 11, 2004 and the State Council does not promulgate any new national rare species catalogue so far. Therefore, China does not have an effective catalogue of rare species at present. As confirmed by our Company, our Yunnan forests do not contain any species of trees that were ever listed in the Catalogue. The species grown in our Yunnan forests are mainly Yunnan pine, oak and China fir, etc.

Laws and Regulations relating to Printing

The Regulations on the Administration of Printing Industry (《印刷業管理條例》) were promulgated by the State Council and came into force on August 2, 2001. These regulations regulate the operations of printing publications, as well as the packaging and decoration materials on printed objects, such as paper, metal and plastic. Pursuant to the regulations, no one is allowed to engage in the printing business without obtaining a printing license. The printing license shall not be leased, lent or transferred. The Interim Measures on the Qualifications of Printing Operators (《印刷業經營者資格條件暫行規定》) which was issued by the General Administration of Press and Publication, or the GAAP (新聞出版總署), specify the qualifications required for enterprises engaged in printing operations. Printing operators must satisfy such qualification requirements in order to obtain approval for their establishment and printing licenses from the press and publication administration.

On January 29, 2002, the GAAP and the former Ministry of Foreign Trade and Economic Cooperation (原對外貿易經濟合作部) jointly issued the Interim Provisions on the Establishment of Foreign-invested Printing Enterprises (《設立外商投資印刷企業暫行規定》) (the "Interim Provisions"). Under the Interim Provisions, approvals by the press and publication administration are required for the establishment of foreign-invested enterprises engaged in the printing business. In addition, foreign-invested printing enterprises are not allowed to set up branches.

Laws and Regulations relating to Products Liability and Consumers Protection

Product liability may arise if the products sold have any harmful effect on the consumers. The injured party may claim for damages or compensation. The General Principles of the Civil Law of the PRC (《民法通則》), which became effective in January 1987, state the manufacturers and sellers of defective products causing property damage and personal injury shall incur civil liabilities for such damage or injuries.

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was enacted in 1993 and amended in 2000 to strengthen the quality control of products and protect consumers' rights and interests. Under this law, manufacturers and retailers who produce or sell defective products may be subject to the confiscation of earnings from such sales, revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liabilities.

The Law of the PRC on Protection of the Rights and Interests of Consumers (《消費者權益保護法》) was promulgated on October 31, 1993 and became effective on January 1, 1994 to protect consumers' rights when they purchase or use goods or services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to consumers.

The PRC Tort Liability Law (《中華人民共和國侵權責任法》), which became effective on July 1, 2010, provides where a product endangers personal life or property due to its defect, the manufacturers and the distributors shall bear liability in tort.

Laws and Regulations relating to Environmental Protection

We are subject to various PRC environmental protection laws and regulations promulgated by the central and local governments. These laws and regulations set out environmental protection measures in construction projects, use, discharge and disposal of toxic and hazardous materials, discharge and disposal of waste water, solid waste and waste gases, and control of industrial noise. The Ministry of Environmental Protection (中華人民共和國環境保護部) is responsible for the overall supervision and administration of environmental protection in the PRC.

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) effective as of December 26, 1989, units that cause environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and any damage caused to the environment, such as waste gas, waste water, waste residues, dust and noises generated during manufacturing or other activities. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. Enterprises and institutions discharging pollutants shall report to and register with the relevant authorities in accordance with the provisions of the environmental protection authority under the State Council. Units which are involved in manufacture, storage, transportation, sale and use of toxic chemicals and materials containing radioactive substances shall comply with the relevant regulations to prevent environmental pollution. The relevant authorities are authorized to impose various types of penalties on persons or entities in violation of the environmental regulations. The penalties which could be imposed include issue of a warning, suspension of operation or installation of facilities which are incomplete or fail to meet the prescribed standard, reinstallation of preventive facilities which have been dismantled or left idle, administrative sanction against office-in-charge, suspension of business operations or shut-down of the enterprise or institution. Fines could also be levied together with these penalties.

According to the Law of the PRC on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》) which came into effect on September 1, 2003, the PRC government has set up a system to appraise the environmental impact of construction projects, and to classify and administer environmental impact appraisals in accordance with the degree of the environmental impact. If the construction project may result in a material impact on the environment, an environmental impact report thoroughly appraising the potential environmental impact is required. If the construction project may result in a slight impact on the environment, an environmental impact record analyzing or appraising the specific potential environmental impact is required. And if the construction project may result in minor impact on the environment, an environmental impact appraisal is not required but an environmental impact form shall be filed. The report is prepared by construction units and shall be approved by the relevant PRC authority before construction commences.

Other major environmental regulations applicable to our Group includes the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) together with the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》) and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》).

Laws and Regulations relating to Fire Prevention

Pursuant to the Fire Prevention Law of the PRC (《中華人民共和國消防法》), which became effective on May 1, 2009, certain construction projects need to be designed for fire prevention according to relevant national standards of construction technology and such design document of fire prevention mechanism of the construction project shall be submitted to the fire prevention departments for record or for approval. Upon completion of the construction project, its fire prevention mechanism shall be inspected by relevant fire prevention departments and obtain approval before commencement of operation.

Laws and Regulations relating to Labor Relationship

The labor relationship is mainly governed by the PRC Labor Law (《中華人民共和國勞動法》), which became effective from January 1, 1995, the PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was adopted by the Standing Committee of the National People's Congress on June 29, 2007 and became effective on January 1, 2008 and the Implementation Rules of the PRC Labor Contract Law (《中華人民共和國勞動合同法實施條例》) which was passed by the State Council on September 18, 2008. The PRC Labor Contract Law and its implementation rules imposes certain requirements in respect of human resources management, including, among other things, signing labor contracts with employees, terminating labor contracts, paying remuneration and compensation and making social insurance contributions. Such laws and its implementation also impose requirements relating to minimum wage, severance payment and non-fixed term employment contracts, and establish time limits for probation periods as well as the duration and the number of times that an employee can be placed on a fixed term employment contract. It also provides that social insurance is required to be paid for the employees and the employees are entitled to unilaterally terminate the labor contract if this requirement is not being satisfied.

Laws and Regulations relating to Imports and Exports

Some of our products are exported to foreign countries, mostly to the U.S., and we also import a small quantity of timbers from overseas to satisfy our production. Therefore we are subject to the Chinese laws and regulations in relation to import and exports.

The Foreign Trade Law of the PRC (《對外貿易法》) was promulgated on May 12, 1994 and amended on April 6, 2004 by the Standing Committee of the National People's Congress to develop foreign trade in areas such as the import and export of goods, technology and international service, and to maintain order in foreign trade and promote the advancement of China's economy. The Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》) which were promulgated by the Ministry of Commerce on June 25, 2004, require enterprises engaged in foreign trade to register with the relevant authorities in charge of foreign trade under the State Council and obtain permissions for their foreign trade operations, if necessary. In addition, the Foreign Trade Law addresses such issues as intellectual property infringement, unfair competition, tax evasion and civil and criminal liabilities for violations of the foreign trade orders.

The Law of the PRC on Import and Export Commodity Inspection (《進出口商品檢驗法》) was promulgated by the Standing Committee of the National People's Congress on February 21, 1989 and amended on April 28, 2002, and the Regulations for the Implementation of the Law of the PRC on Import and Export Commodity Inspection (《進出口商品檢驗法實施條例》) were promulgated by the State Council on August 31, 2005 and came into force on December 1, 2005. The main objectives of this law and its implementation regulations are to strengthen the inspection of, and ensure the quality of, import and export commodities to protect the lawful rights and interests of the parties involved in foreign trade, and to promote the development of China's economic and trade relations with foreign countries. The AQSIQ oversees inspections, while local entry-exit inspection and quarantine bureaus (出入境檢驗檢疫局) shall perform inspections in areas under their jurisdiction.

Pursuant to this law and its implementation regulations, the AQSIQ shall publish from time to time a catalog of imported and exported commodities which shall be subject to the compulsory inspection by local entry-exit inspection and quarantine bureaus. Such inspections cover quality, specifications, quantity, weight and packaging and requirements for safety, hygiene, health, environmental protection and anti-fraud protection, among others, and are governed by compulsory standards or other inspection standards under the law. Any violation of the relevant provisions of this law, such as evading commodity inspections, may result in fines and other penalties. Serious violations may subject the responsible individual or enterprise to criminal liabilities.

Under the circumstances that any goods imported or exported of PRC include plants, animals and their products, containers, packing materials, as well as means of transport from animal or plant epidemic areas, such goods shall be subject to quarantine inspection in accordance with the Law of PRC on the Import and Export Animal and Plant Quarantine (《中華人民共和國進出境動植物檢疫法》), which became effective in April 1, 1992, and its implementations. The import plants, animals and their products can not enter into the PRC before passing the quarantine inspection. Violation of the Law and its implementations may result in the imposing of fines and penalties, withdrawal of quarantine permits or even criminal liabilities in severe cases.

Laws and Regulations relating to Production Safety

The PRC Production Safety Law (《中華人民共和國安全生產法》), which became effective on November 1, 2002, is the principal law governing the supervision and administration of production safety in the PRC. This law requires manufacture entities to meet the relevant legal requirements, such as providing its staff with training and a handbook on production safety and providing safe working conditions in compliance with relevant laws, rules and regulations. Any production entities unable to provide the required safe working conditions may not engage in production activities.

Violation of the PRC Production Safety Law may result in the imposing of fines and penalties, the suspension of operations, an order to cease operations, or even criminal liability in severe cases.

Laws and Regulations relating to Intellectual Property Rights

China has adopted comprehensive legislation governing intellectual property rights, including trademarks, patents and copyrights. China has adhered to the main international conventions on intellectual property rights and has become a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

Patent Law

The National People's Congress adopted the Patent Law of the PRC (《中華人民共和國專利法》) in 1984, and amended it in 1992, 2000 and 2008. The purpose of the Patent Law is to protect the lawful interest of patentee and encourage invention, foster applications of invention and promote the development of science and technology. A patentable invention or utility model must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Council is responsible for receiving, examining and approving patent applications. A patent is valid for a term of 20 years in the case of an invention and a term of ten years in the case of a utility model and design, starting from the application date. A third-party user must obtain consent or a proper license from the patent owner to use the patent except for certain specific circumstances provided by law. Otherwise, the use will constitute an infringement of the patent rights. Any contract for licensing of the exploitation of a patent is required to be filed with the patent administration department under the State Council within three months from the date of effectiveness.

Trademark Law

Registered trademarks are protected under the Trademark Law of the PRC (《中華人民共和國商標法》) adopted in 1982 and amended in 1993 and 2001. The PRC Trademark Office of the States Administration of Industry and Commerce (國家工商行政管理總局商標局) is responsible for the registration and administration of trademarks throughout China. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark shall not prejudice the existing right of others obtained by priority, nor shall any person register in advance a trademark that has already been used by another person and has already gained "sufficient degree of reputation" through that person's use by illegitimate means. After receiving an application, the PRC Trademark Office will make a public announcement if the relevant trademark passes the preliminary examination. Any person may, within three months after such public announcement, file an opposition against a trademark that has passed a preliminary examination. The PRC Trademark Office's decisions on rejection, opposition or cancellation of an application may be appealed to the PRC Trademark Review and Adjudication Board, whose decision may be further appealed through judicial proceedings. If no opposition is filed within three months after the public announcement period or if the opposition has been overruled, the PRC Trademark Office will approve the registration and issue a registration certificate, upon which the trademark is registered and will be effective for a renewable ten-year period, unless otherwise revoked.

Regulations on Domain Names

The Ministry of Information Industry of the PRC (中華人民共和國信息產業部), which has changed to the Ministry Industry and Information Technology of the PRC (中華人民共和國工業 和信息化部), re-promulgated its Administrative Measures on China Internet Domain Names (《中國互聯網絡域名管理辦法》) in 2004. According to the measures, applicants for registration of domain names shall provide their true, accurate and complete information of such domain names to and enter into registration agreements with domain name registration service institution. The applicants could become the holder of such domain names upon the completion of the registration procedure. The measures prohibit the registration and use of domain names with any content that may:

- violate the basic principles set forth in the Constitution Law of the PRC (《中華人民共和國憲法》);
- jeopardize state security, disclose any State secret, subvert state authority or harm national unity;
- damage national dignity or interests;
- incite ethnic hatred or discrimination or damage ethnical unity;
- harm State religious policies or advocate heresy or feudal superstition;
- disseminate rumors, disrupt social order or sabotage social stability;
- disseminate obscenity, pornography, gambling, violence, murder, terror or induce crimes;
- humiliate or defame any other person, or infringe the legal interests of any other person; or
- be otherwise prohibited by the PRC laws and regulations.

Laws and Regulations relating to Taxation

Our income from wood flooring production and sale of wood flooring products are mainly subject to enterprise income tax and value added tax.

The PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》) (the "**EIT Law**") and its implementation regulations (《中華人民共和國企業所得稅法實施條例》), which became effective on January 1, 2008, impose a uniform enterprise income tax rate of 25% on both domestic and foreign-invested enterprises.

Under the EIT Law and its implementation regulations, enterprises are either resident enterprises and non-resident enterprises. Resident enterprises are enterprises established under the laws of PRC or established under the laws of a foreign country or region whose "de facto management bodies" is located within the PRC territory. Resident enterprises are subject to the uniform 25% enterprise income tax rate as to their global income. Non-resident enterprises are enterprises established under the laws of a foreign country or region whose "de facto management bodies" are not located within the PRC territory but have organization or premise in the PRC, or have no organization or premise in the PRC but have incomes sourced within the PRC. If an organization or premise is set up in the PRC by a non-resident enterprise, its will be subject to enterprise income tax on the income derived from such organization or premise in the PRC and the income derived from outside the PRC but with actual connection with such organization or presence in the PRC. For a non-resident enterprise which has not set up an organization or premise in the PRC, or has set up an organization or premise but the income derived has no actual connection with such organization or premise, its income derived in the PRC will be subject to enterprise income tax at a reduced rate of 10%, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements.

Pursuant to the Provisional Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》) which was promulgated on December 13, 1993 and amended on November 5, 2008, and its implementation regulations (《中華人民共和國增值稅暫行條例實施細則》), which were promulgated on December 15, 2008, all of which became effective on January 1, 2009, unless stated otherwise, the tax rate for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC shall be 17%.

Laws and Regulations relating to Foreign Exchange

Pursuant to the PRC Foreign Currency Administration Rules (《中華人民共和國外匯管理條例》) promulgated in 1996 and amended in 1997 and 2008 by the State Council and various regulations issued by the SAFE and other relevant PRC government authorities, the Renminbi is freely convertible only to the extent of current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investments, require the prior approval from, or registration with, the SAFE or its local counterpart for conversion of Renminbi into a foreign currency, such as US dollars, and remittance of the foreign currency outside the PRC. Payments for transactions that take place within the PRC must be made in Renminbi, with limited exceptions.

Pursuant to the SAFE Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents' Financing and Roundtrip Investment through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or the SAFE Circular No. 75, issued by the SAFE on October 21, 2005, (i) a PRC resident shall register with the local branch of the SAFE before it establishes or controls an overseas special purpose vehicle, or an overseas SPV, for the purposes of overseas equity financing (including convertible debt financing); (ii) when the PRC resident contributes the assets of or its equity interests in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing such assets or equity interests into an overseas SPV, such PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of the SAFE; and (iii) when the overseas SPV undergoes a material capital related event outside of China, such as change in share capital or merger or acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register or file such change with the local branch of the SAFE. The SAFE subsequently issued relevant guidance with respect to the operational process for the SAFE registration under the SAFE Circular No. 75, which standardized more specific and stringent supervision on the registration relating to the SAFE Circular No. 75 and imposed obligations on onshore subsidiaries of the overseas SPV to coordinate with and supervise the beneficial owners of the overseas SPV who are PRC residents to complete the SAFE registration process. Under the SAFE Circular No. 75 and relevant SAFE rules, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the overseas SPV, and penalties on the PRC residents and/or the PRC subsidiary of the overseas SPV.

We have been advised by our PRC legal counsel, Haiwen & Partners, that none of the beneficial owners of our Company is PRC resident under the SAFE Circular No. 75 and therefore they do not need to do foreign exchange registrations for their ● in our Group in accordance with PRC laws.

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PERUVIAN LAWS AND REGULATIONS

Report on and Summary of the Major Forest Regulations

The Organic Law for the Sustainable Use of Natural Resources, Law Nr. 26821, effective as of June 26, 1997 sets forth that the rights for the sustainable use of natural resources are granted to particulars through the modes that are established by special laws for each natural resource. In all cases, however, the Peruvian State keeps control over the natural resources as well as over its fruits and products as long as they are not granted to a particular entity through a legal title.

The Law on Forest and Wildlife, Law Nr. 27308, effective as of July 16, 2000 regulates the supervision, the sustainable use and the conservation of natural forest resources and wildlife, making compatible their use with the progressive appreciation of the environmental services of the forest, in harmony with the social, economic and environmental interests of Peru.

In this way, forest and wildlife resources that are to be kept in their sources and the forest lands of Peru form part of the National Forest Estate and they are restricted from farming and livestock use or from any other activities that may affect the vegetation cover or the sustainable use and the conservation of the forest resource, save in exceptional circumstances set out by special regulations.

For these purposes, Law Nr. 27308 considers forest resources to include all natural forests, forest plantations and lands whose major usability may be of forest production and protection and all other wild components of the emergent land and water flora.

On the other hand, the above Law establishes the classification of the forest concessions with timber-yielding purposes as concessions granted through public auction, and concessions granted through public bid. Likewise, it establishes the general guidelines to be observed for the use of the forest.

Implementing Regulations of the Law on Forest and Wildlife, approved by Supreme Decree Nr. 014-2001-AG, effective as of April 9, 2001 establishes the specific regulations applicable to the concessionaires. Among the main topics regulated which are referred to forest activities, the following are established: detailed contents of the general forestry management plan and annual operational plan as well as how to present the annual operational plans, the procedures to be followed when making adjustments in such documents, the procedure for their approval and the sanctions when there is non-fulfillment of such requirements. Likewise, the terms of payment for the right of use according to the provisions of the forest law are established.

In addition, the implementing regulations fix the main rights and obligations of the concessionaires, the grounds for lapsing, terms for the fulfillment of its obligations as well as the sanctions applicable for non-fulfillment. With respect to transformation and commercialization, they establish the processes for primary transformation of timber-yielding forest resources, among which we have the following: (i) sawmilling of lumber in rolls, squaring of saw-logs, re-sawmilling, shredding, chipping, rolling and production of pre-parquet; (ii) manufacture of posts, beams, timber, sleepers, planks, laths and dimensional lumber, and other similar products of lumber; (iii) production and packing of firewood and charcoal; and (iv) manufacture of non-standard packaging of wood, such as boxes, bins and other containers used for the transport of products.

Finally, the implementing regulations also address the protection of forest resources and wildlife, by virtue of which the conservation of forest and wildlife resources may include the protection of species and habitats due to their fragility, vulnerability or threatened situation, for which special measures such as bans, prohibitions or regulations, protection of specific habitats as well as measures of ecological restoration may be established.

Commercial Activities in Cushioning Areas

A portion of the Group's Peru forest concessions overlaps with the "cushioning area" (zona de amortiguamiento) of the Pacaya Samiria National Reserve, which is recognized as a Protected National Area in Peru. The Pacaya Samiria National Reserve is subject to the control of the National Service of Natural Areas Protected by the State, the Peru governmental agency having jurisdiction over national parks and reserves in Peru.

The Pacaya Samiria National Reserve has an extension of 2,080,000 hectares, and is located in the Peruvian Amazon, at the northeast of Peru, Region of Loreto. It is surrounded by its cushioning area, which is a 10-kilometers-wide strip around the border of the national reserve, and which was officially declared as a natural reserve by means of Supreme Decree Nr. 016-82-AG dated December 12, 1982. The cushioning area was declared in order to preserve the environment of the core area of the Pacaya Samiria National Reserve. Pacaya Samiria is the largest Protected National Area in Peru, and one of the most important Peruvian wetlands. In accordance with its Master Plan approved by the National Service of Natural Areas Protected by the State for the period between 2009 and 2014 by means of Presidential Resolution Nr. 173-2009-SERNANP dated September 24, 2009, the Pacaya Samiria National Reserve is home to 965 species of wild plants, 59 species of cultivated plants and 1,025 species of vertebrate animals.

At the Group's request, the National Service of Natural Areas Protected by the State issued an opinion, namely Technical Opinion Nr. 016-2010-SERNANP-RNPS-J dated December 21, 2010, concluding that exploitation activities of woods can be pursued within the cushioning area of the Pacaya Samiria National Reserve, provided that these activities are conducted in accordance with the general forestry management plan and annual operational plan of Nature America S.A.C., which in turn must be supervised by the corresponding entity and the National Service of Natural Areas Protected by the State. The general forestry management plan and annual operational plan were approved on February 25, 2011 and March 23, 2011, respectively.

Forest Management

Supreme Decree Nr. 014-2001-AG defines the management plan as the dynamic and flexible tool of management and control for the operations of forest management. Its conception and design must allow the identification with anticipation of the activities and operations required to achieve the sustainability of its use. Both the management plan and the reports of execution constitute public documents of free access, with forest engineers and/or specialized legal consultants registered before the forest authority being responsible for their elaboration.

Moreover, two levels of planning are set, which are: (i) the general forestry management plan, which provides the general frame of strategic planning and business projection for the long term, formulated as a minimum for all the term of validity of the concession; and (ii) the annual operational plan, which is the tool for the operational planning for the short term, that is, for the operating year of the concession which may or may not coincide with the calendar year. Once both these plans are approved by the regional government where the concession is located, commercial exploitation of the forest can occur in accordance with the terms of the approved plans.

Reforestation

The general forestry management plan and the annual operational plan should include the methodology of species replacement, which may include natural regeneration, in which case there is no obligation on the concessionaire to carry out reforestation activities. The reforestation obligation is limited to what is established in the general forestry management plan and the annual operational plan.

According to the consolidated general forestry management plan of the Company, the management system used is the "polycyclic system based on natural regeneration". Additionally, the mentioned document establishes that the Company would not conduct reforestation activities but would develop silvicultural treatments in relation to the harvested forests.

Protection Measures

Supreme Decree Nr. 014-2001-AG sets forth the definition of the categories of the species, as well as their regime for possession, extraction and commercialization, without prejudice to the application of international treaties to which Peru is a part of.

Peru is part to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), which is aimed is to ensure that international trade in specimens of wild animals and plants does not threaten their survival.

Forest Operations (Cutting and Transport)

Supreme Decree Nr. 014-2001-AG regulates the species and cutting diameters authorized for the extraction of specimens whose minimum cutting diameter and logs meet the characteristics established by the forest authority, in accordance with the corresponding regulations. Likewise, it establishes that the volume of standing timber removed is in accordance with the approved management plan, after payment of the corresponding right of use.

With regards to the transport authorizations of forest and wildlife raw products, said regulations define them as the documents that authorize the internal transportation of such products. In the case of specimens of wildlife, in the corresponding transport authorization it must be included the codes of the marks of the specimens to be transported.

In the case of lumber logs, they must have marks in each end with the authorized mark, whose code is included in the transport authorizations.

The forms of the transport authorizations must be registered before the forest authority and must be filled out and signed by the corresponding holder.

Primary Transformation and Commercialization

Any person working in the activities of primary transformation and/or commercialization of raw forest products and/or which have a primary transformation, must keep compulsively a Book of Transactions which must register information about the transactions taking place (date of the transaction being registered, volume, weight or quantity of the received product, common and/or scientific names of the species, volume and weight or quantity of the processed product by specie, origin of the raw material, number and date of the forest transport authorization, etc.).

Likewise, he/she must submit to the Forest Authority an annual report of his/her activities.

The following are considered processes of primary transformation of timber-yielding forest resources: a) sawmilling of lumber in rolls, squaring of saw-logs, re-sawmilling, shredding, chipping, rolling and production of pre-parquet; b) manufacture of posts, beams, timber, sleepers, plancks, laths and dimensional lumber, and other similar products of lumber; c) production and packing, of firewood and charcoal; d) manufacture of non-standard wooden packaging, such as boxes, bins, containers and the like used for the transport of products.

Any person working in the transformation and/or commercialization of forest products has the obligation of collecting from his/her suppliers the forest transport authorizations which support the transport of his/her products. Non-fulfillment of this regulation causes the confiscation of the products being transported.

The installation of plants for the primary transformation of forest products must be authorized by the Forest Authority.

The holders/owners of installations working in the transformation and/or the commerce of forest products can only commercialize or use products whose utilization has been authorized by the Forest Authority and those products which have been legally imported.

Any transformation plant of forest products must have a corresponding forest transport authorization in order to dispatch or transport each cargo of transformed products, excepting furniture, handicrafts and the like.

The use of power saws is prohibited, as well as of any other tool or machine which may have similar effects, for the longitudinal sawmilling of any forest species, for commercial and industrial purposes, unless expressly authorized by the Forestry Authority.

Commercial Establishments and Warehouses of raw forest products

The operation of commercial establishments and warehouses for raw forest products and said products with primary transformation must be authorized by the Forest Authority.

Laws relating to Import and Export of Forest Products

The import into Peru of forest products of foreign origin is subject to compliance with the provisions of forest and agricultural health legislation, the international commitments of Peru on bio-safety, plant and animal health and the commercialization of forest and wildlife products, and of the tax and customs dispositions currently in effect in Peru.

The export of forest products whose trade is regulated by national norms or treaties, agreements or international agreements of which Peru is a part of, must be authorized by the Forest Authority.

The Forest Authority also grants Export Permits for Forest and Wildlife products, which have business, scientific, or cultural diffusion and ornamental purposes, consistent with the provisions of the Forest Law, of its Regulations and of the International Agreements and Covenants subscribed by the Peruvian State on conservation and sustainable use of the biological diversity, Convention on International Trade in Endangered Species of Wild Fauna and Flora and other norms on the matter.

Export permits for components of the biological diversity such as seeds, specimens, parts of specimens or others, do not authorize activities of variety improvement, research and biotechnological development or industrial use, nor may the permits grant property rights over their genetic resources. The export permits only authorize their direct commercialization, consumption and growing if the case may be.

Laws and Regulations relating to Imports and Exports Customs and Excise

The General Customs Law, approved by means of Legislative Decree Nr. 1053, establishes that customs services are designed in order to facilitate foreign trade and contribute to the development of the nation.

The General Customs Law and its regulations, approved by Supreme Decree Nr. 010-2009-EF, rule the tax-customs regime within the customs territory regarding: (i) the entry and exit of goods, (ii) clearance of goods, (iii) applicable customs regimes, (iv) customs administrative misdemeanors and their corresponding penalties, (v) special customs destinations, and (vi) customs controls in charge of the Customs Administration with respect to the international traffic of goods, vehicles and individuals.

In this sense, it must be noted that "customs regimes" are grouped as follows: (i) import regimes, (ii) export regimes, (iii) perfection regimes, (iv) customs warehousing regimes, (v) transit regimes, and (vi) other exceptional regimes.

The "consumption import regime" is a specific kind of import regime which allows the legal entry of goods from abroad only if they are imported by any individual or entity duly domiciled in Peru for consumption purposes. Non-resident individuals or entities may import goods under this regime if they establish a tax domicile in Peru or appoint a representative domiciled in Peru. Under this regime, the goods are nationalized and become freely available to the owner or consignee, subject to the payment of a predetermined fee.

However, "forbidden goods" (*i.e.,* goods which are expressly forbidden to be imported by the law or due to security issues, public health and morality, among others) cannot be imported and "restricted goods" can only be imported if a special authorization is granted by the corresponding authority.

Proceedings regarding import shall be carried out before the Customs Authority by: (i) the main importer, in case the value of the goods (on a free-on-board basis) indicated in the commercial invoice does not exceed US$ 2,000, or (ii) a customs agent duly authorized to perform its activities within the jurisdiction of the Customs Intendance where the clearance of the good will be carried out, in any other case.

On the other hand, the "definitive export regime" is a specific kind of export regime applying to goods in free circulation that leave the customs territory for final use or consumption abroad, which allows exports to be performed in a short timeframe and at a reduced cost by eliminating most of the requirements and/or obstacles to export.

Goods to be exported under this specific regime are not subject to any tax payment although a customs clearance fee is charged in some cases.

In this sense, any goods can be imported, except for those which are classified as "forbidden goods" or "restricted goods" in the lists published by the Ministry of Economy and the Ministry of Agriculture, among others.

In addition, perfection regimes are aimed at facilitating the entry of raw materials or supplies into Peru free from payment of customs duties and other taxes levied on their import, so long as they are processed for later re-export as a new product (named "compensation product" by the customs legislation). Such perfection regimes include:

(i) the Temporary Admission for Active Perfection regime, which allows the entry into the customs territory of certain goods including raw materials, inputs, intermediate products, parts and accessories, with the suspension of payment of customs duties and other taxes applied on imports for consumption and applicable surcharges, in order for such goods to be exported within a specified period once such products have been applied towards manufacturing compensating products;

(ii) the Temporary Export for Passive Protection regime, which permits the temporary export from the customs territory of national or nationalized goods to be processed, manufactured or repaired, and then re-imported as compensating products within twelve (12) months;

(iii) the Drawback regime, which enables export goods to obtain a full or partial refund of customs duties levied on imported goods that are used as components in goods that are to be exported or utilized during the production of such goods; and

(iv) the Restocking of Merchandise in Duty-Free regime, which allows the import of consumer goods that are equivalent to those that have been nationalized or have been used to produce goods that have been previously exported as final, without payment of customs duties and other taxes on imports for consumption.

Finally, the Law on Customs Crimes, Law Nr. 28008, provides the definitions of customs crimes such as smuggling, evasion of customs duties and collection (*receptación*).

In addition, the Customs Administration has been granted powers to impose penalties regarding misdemeanors which do not exceed a certain amount. Likewise, the Law regarding Customs Crimes establishes aggravating circumstances in case that smuggling and/or evasion of customs duties is committed and: (i) the goods are firearms or "forbidden goods", (ii) violence is used, or (iii) the value of the goods exceeds twenty (20) Tax Units (which is equivalent to S/. 72, 000).

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on July 27, 2007. The registered office of our Company as at the date of this document is situated at the offices of Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. We have established a principal place of business in Hong Kong at Unit 3401, 34/F, West Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong and have been registered as an oversea company under Part XI of the Hong Kong Companies Ordinance on March 14, 2011. Mr. Teoh Chun Ming has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and its constitutional documents, which comprise the Memorandum and the Articles. A summary of certain relevant provisions of its constitution and relevant aspects of Cayman Companies Law is set out in Appendix VII to this document.

2. Changes in share capital of our Group

The Company

At the date of incorporation of our Company, the authorized share capital of our Company was US$50,000.00 divided into 50,000 ordinary shares of US$1.00 each.

The following changes in the share capital of our Company have taken place since the date of incorporation of our Company up to the date of this document:

(a) On July 27, 2007, one ordinary share of US$1.00 was allotted and issued, credited as fully paid, to Marcia Donaldson.

(b) On July 27, 2007, Marcia Donaldson transferred her one ordinary share of US$1.00 to Mr. Se Hok Pan.

(c) On July 27, 2007, 24,999 ordinary shares of US$1.00 each were allotted and issued, credited as fully paid, to Mr. Se Hok Pan.

(d) On July 27, 2007, 25,000 ordinary shares of US$1.00 each were allotted and issued, credited as fully paid, to Ms. Un Son I.

(e) On May 7, 2008, each issued and unissued ordinary share of US$1.00 each was sub-divided into 1,000 Shares and following the subdivision of share capital, the authorized share capital of our Company was increased from US$50,000 to US$200,000 by the creation of an additional 108,000,000 Shares, the creation of an additional 41,999,999 preferred shares of US$0.001 each and one Special Share.

(f) On May 7, 2008, 10,000,000 Shares were allotted and issued, credited as fully paid, to Mr. Se Hok Pan. On the same day, Mr. Se Hok Pan transferred his 35,000,000 Shares to Freewings.

(g) On May 7, 2008, 10,000,000 Shares were allotted and issued, credited as fully paid, to Ms. Un Son I. On the same day, Ms. Un Son I transferred her 35,000,000 Shares to Freewings.

(h) On May 8, 2008, one Special Share was allotted and issued, credited as fully paid, to MS Flooring.

(i) On May 21, 2008, the authorized share capital of the Company was increased from US$200,000 to US$406,000 divided into (i) 282,000,000 Shares; (ii) 123,999,999 convertible preferred shares with a par value of US$0.001 each, (83,999,999 of which are Preferred Shares and 40,000,000 of which are non-voting preferred shares) and (iii) one Special Share.

(j) On June 30, 2010, Freewings transferred 298,212 Shares to MS Flooring and transferred 119,285 Shares to IFC.

(k) On June 30, 2010, 29,999,999 Preferred Shares were allotted and issued, credited as fully paid, to MS Flooring.

(l) On June 30, 2010, 12,000,000 Preferred Shares were allotted and issued, credited as fully paid, to IFC.

(m) On September 30, 2010, Freewings transferred 2,307,827 Shares to Headland HAV3.

The following changes in the share capital of our Company will take place after the date of this document:

(a) Prior to ●, MS Flooring and IFC will convert all of their 29,999,999 and 12,000,000 Preferred Shares into 29,999,999 and 12,000,000 Shares, respectively, and the one Special Share will be redeemed and cancelled.

(b) Prior to ●, MS Flooring and IFC will transfer 3,298,212 Shares and 1,319,285 Shares, respectively to Freewings.

Assuming ●, the authorized share capital of our Company will be increased from US$406,000 to US$4,000,000 divided into 4,000,000,000 Shares on ●, and assuming further that the Capitalization Issue is completed and ● but taking no account of any Shares which may be issued upon the exercise of ● and the options granted under the Previous Share Option Scheme, the issued share capital of our Company will be US$● divided into ● Shares fully paid or credited as fully paid, with ● Shares remaining unissued.

On the basis that ●, ● Shares will have been allotted and issued fully paid or credited as fully paid, and ● Shares will remain unissued.

Save as disclosed herein and as mentioned in the paragraph headed "Written resolutions of all our Shareholders passed on May 3, 2011" below, there has been no other alteration in the share capital of our Company since the date of its incorporation.

Our Subsidiaries

The list of our subsidiaries is set out in the section headed "Appendix I — Accountants' Report" in this document. The following alterations in the share capital (or registered capital as the case may be) of our subsidiaries have taken place within two years preceding the date of this document.

Sun Pine Investment Limited

On March 10, 2009, GNL09 Limited established Sun Pine Investment Limited in Hong Kong. The authorized share capital of Sun Pine Investment Limited is HK$10,000 divided into 10,000 shares of HK$1.00 each, among which one share of HK$1.00 was allotted and issued to GNL09 Limited.

On June 17, 2009, GNL09 Limited transferred its one share of HK$1.00 to China Wood Flooring Holding Company Limited.

Jiangxi Yingran Forest Development Co., Ltd. (江西盈然林業發展有限公司)

On June 30, 2009, Sun Pine Investment Limited established Jiangxi Forest in the PRC. The registered capital of Jiangxi Forest upon its establishment was US$1,200,000, which Sun Pine Investment Limited had contributed in full.

The registered capital of Jiangxi Forest increased from US$1,200,000 to US$5,000,000 on August 27, 2010.

Nature America S.A.C.

On October 19, 2009, Nature America S.A.C. allotted and issued 494,010 and 4,990 shares of S/. 1 each to Asia Legend Industrial Limited and Mr. Chow Chi Keung Savio, respectively and the shareholdings of Asia Legend Industrial Limited and Mr. Chow Chi Keung Savio in Nature America S.A.C. were therefore increased to 495,000 shares and 5,000 shares, respectively.

On December 31, 2010, Mr. Chow Chi Keung Savio transferred his 5,000 shares in Nature America S.A.C. to Fortune Team International Limited.

Nature Wood (Peru) S.A.C.

On October 19, 2009, Nature Wood (Peru) S.A.C. allotted and issued 494,010 and 4,990 shares of S/. 1 each to Fortune Team International Limited and Mr. Chow Chi Keung Savio, respectively and the shareholdings of Fortune Team International Limited and Mr. Chow Chi Keung Savio in Nature Wood (Peru) S.A.C. were therefore increased to 495,000 shares and 5,000 shares, respectively.

On December 31, 2010, Mr. Chow Chi Keung Savio transferred his 5,000 shares in Nature Wood (Peru) S.A.C. to Asia Legend Industrial Limited.

Nature Flooring (China) Co., Ltd. (大自然地板（中國）有限公司)

On December 18, 2009, Nature Flooring Holding Company Limited established Nature Flooring (China) Co., Ltd. (大自然地板（中國）有限公司) in the PRC. The registered capital of Nature Flooring (China) Co., Ltd. (大自然地板（中國）有限公司) is RMB50,000,000, which Nature Flooring Holding Company Limited has contributed in full.

YS Nature International Trading Co., Ltd.

On December 21, 2010, Mr. Se Hok Pan transferred the quota with a nominal value of MOP1,000 in YS Nature International Trading Co., Ltd. to Cheerway Industrial Limited.

Great Nature Investments and Holdings Company Limited

On December 21, 2010, Mr. Se Hok Pan transferred the quota with a nominal value of MOP1,000 in Great Nature Investments and Holdings Company Limited to China Flooring Trading Company Limited.

Nature Casa Holding Company Limited

On November 19, 2010, Nature Casa Holding Company Limited (formerly known as Richfield Glory Limited) was incorporated in Hong Kong. The authorized share capital of Nature Casa Holding Company Limited is HK$10,000 divided into 10,000 shares of HK$1.00 each, among which one share of HK$1.00 was allotted and issued to Company Kit Secretarial Services Limited.

On December 9, 2010, Company Kit Secretarial Services Limited transferred its one share of HK$1.00 to China Wood Flooring Holding Company Limited.

Save as disclosed herein, there has been no other alteration in the share capital or registered capital of our subsidiaries in the two years preceding the date of this document.

3. Written resolutions of all our Shareholders passed on May 3, 2011

On May 3, 2011, written resolutions of all our shareholders were passed pursuant to which, inter alia:

(a) the conversion, re-designation and re-classification of all the issued Preferred Shares as Shares was approved;

(b) the redemption of the Special Share upon conversion of all the issued Preferred Shares was approved;

(c) the re-conversion of Shares converted pursuant to (a) above and the re-issue of the Special Share if ● fails to complete were approved;

(e) conditional on ●:

(i) the Memorandum and the Articles were approved and adopted as the new memorandum of association and articles of association of our Company in substitution for and to the exclusion of the existing memorandum of association and articles of association of our Company with effect from ●;

(ii) the authorized share capital of our Company was increased from US$406,000 to US$4,000,000 divided into 4,000,000,000 Shares, effective upon adoption of the Memorandum as the new memorandum of association of our Company.

4. Repurchase by our Company of Shares

● permit companies with ● to repurchase their shares on ● subject to certain restrictions, the most important of which are summarized below:

(a) Shareholders' approval

All proposed repurchases of shares must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by specific approval of a particular transaction.

Under ●, the shares which are proposed to be repurchased by a company must be fully paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and its shareholders as a whole for the Directors to have a general authority from shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and/or our earnings per Share and will only be made when the Directors believe that such repurchases will benefit our Company and its Shareholders as a whole.

(c) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Memorandum of Association and the Articles of Association, ● and the applicable laws of the Cayman Islands. We shall not repurchase our own securities on ● for a consideration other than cash or for settlement otherwise than in accordance with ●.

On the basis of our current financial position as disclosed in this document and taking into account our current working capital position, the Directors consider that, if the repurchase mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company as compared with the position disclosed in this document. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing position which, in the opinion of the Directors, are from time to time appropriate for our Company.

(d) Directors' undertaking

The Directors have undertaken that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with ●, the applicable laws of the Cayman Islands, the Memorandum of Association and the Articles of Association.

(e) Disclosure of interests

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates has any present intention, if the repurchase mandate is exercised, to sell any Shares to our Company or our subsidiaries.

No connected person of our Company has notified us that he or she has a present intention to sell Shares to us, or has undertaken not to do so, if the repurchase mandate is exercised.

***(f)* ●**

(g) Share capital

Exercise in full of the repurchase mandate, on the basis of ● Shares in issue immediately after ● and the Capitalization Issue, but taking no account of any Shares which may be allotted and issued upon the exercise of ● and the options granted under the Previous Share Option Scheme or may be granted under the Share Option Scheme, could accordingly result in up to ● Shares being repurchased by us during the course of the period prior to the date on which such repurchase mandate expires or being terminated as mentioned in the section headed "Further Information about Our Company and Our Subsidiaries — Written resolutions of all our Shareholders passed on May 3, 2011" in this appendix.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years immediately preceding the date of this document and are or may be material:

(a) a supplemental mortgage contract made on July 27, 2009 between Kunshan Nature and IFC, pursuant to which Kunshan Nature provided certain collaterals to IFC as security for the repayment of the loan of US$3.5 million from IFC and other secured obligations;

(b) a supplemental mortgage contract made on July 27, 2009 between Zhongshan Nature and IFC, pursuant to which Zhongshan Nature provided certain collaterals to IFC as security for the repayment of the loan of US$3 million from IFC and other secured obligations;

(c) a supplemental mortgage contract dated July 27, 2009 between Jiangxi Nature and IFC, pursuant to which Jiangxi Nature provided certain collaterals to IFC as security for the repayment of the loan of US$6.5 million from IFC and other secured obligations;

(d) (i) a first amendment agreement dated September 18, 2009 between Kunshan Nature and IFC, amending certain terms of a loan agreement dated May 21, 2008 between Kunshan Nature and IFC; and (ii) a letter dated July 7, 2009 from IFC to Kunshan

Nature, waiving certain terms of the loan agreement dated May 21, 2008 between Kunshan Nature and IFC;

(e) (i) a first amendment agreement dated September 18, 2009 between Zhongshan Nature and IFC, amending certain terms of a loan agreement dated May 21, 2008 between Zhongshan Nature and IFC; and (ii) a letter dated July 7, 2009 from IFC to Zhongshan Nature waiving certain terms of the loan agreement dated May 21, 2008 between Zhongshan Nature and IFC;

(f) (i) a first amendment agreement dated September 18, 2009 between Jiangxi Nature and IFC, amending certain terms of a loan agreement dated May 21, 2008 between Jiangxi Nature and IFC; and (ii) a letter dated July 7, 2009 from IFC to Jiangxi Nature Wood-Based Panels Co., Ltd., waiving certain terms of the loan agreement dated May 21, 2008 between Jiangxi Nature and IFC;

(g) a land use right transfer agreement dated August 28, 2010 between Jiangxi Yingran and Shangrao Land Resources Administration Bureau (上饒市國土資源局), pursuant to which Jiangxi Yingran acquired the land use right of a parcel of land of 123,308 sq.m. in Shangrao Economic Development Zone Huangyuan District (上饒經濟開發區黃源片區) for a consideration of RMB11.89 million;

(h) an addendum to forest concession for timber contract dated December 3, 2009 between the Ministry of Agriculture, A&A Peru S.A.C. and Nature America S.A.C., pursuant to which Nature America S.A.C. assumed all the rights and obligations in relation to a forest concession for timber contract for a total area of 21,974.41 hectares;

(i) an addendum to forest concession for timber contract dated December 3, 2009 between the Ministry of Agriculture, A&A Peru S.A.C. and Nature America S.A.C., pursuant to Nature America S.A.C. assumed all the rights and obligations in relation to a forest concession for timber contract for a total area of 24,372.56 hectares;

(j) an agency agreement dated November 11, 2009 between Jiangxi Forest and Beijing Zhongxing Taifu Investment Management Co., Ltd (北京中興泰富投資管理有限公司) ("ZXTF"), pursuant to which Jiangxi Forest engaged ZXTF as its agent in relation to the acquisition of forestry resources in the PRC with a total area of 24,129.6 mu for a total consideration of RMB14,477,760 (inclusive of the acquisition cost of the forestry resources and the agency fees);

(k) an agency agreement dated February 9, 2010 between Jiangxi Forest and ZXTF, pursuant to which Jiangxi Forest engaged ZXTF as its agent in relation to the acquisition of forestry resources in the PRC with a total area of 18,332.6 mu for a total consideration of RMB10,999,560 (inclusive of the acquisition cost of the forestry resources and the agency fees);

(l) a contract dated June 30, 2010 entered into between Nature Flooring (China) Co., Ltd. (大自然地板(中國)有限公司) and Liaoning Tai'an Weilibang Wood Co., Ltd. (遼寧台安威利邦木業有限公司) in relation to the joint establishment of Liaoning Tai'an pursuant to which Nature Flooring (China) Co., Ltd. (大自然地板(中國)有限公司) and Liaoning Tai'an Weilibang Wood Co., Ltd. (遼寧台安威利邦木業有限公司) agreed to contribute RMB7.6 million and RMB32.4 million to the registered capital of Liaoning Tai'an, representing 19% and 81% of the registered capital of Liaoning Tai'an, respectively;

(m) a contract dated June 30, 2010 entered into between Nature Flooring (China) Co., Ltd. (大自然地板(中國)有限公司) and Hubei Weilibang Wood Co., Ltd. (湖北威利邦木業有限公司) in relation to the joint establishment of Hubei Xiangfan pursuant to which Nature Flooring (China) Co., Ltd. (大自然地板(中國)有限公司) and Hubei Weilibang Wood Co., Ltd. (湖北威利邦木業有限公司) agreed to contribute RMB7.6 million and RMB32.4 million to the registered capital of Hubei Xiangfan, representing 19% and 81% of the registered capital of Hubei Xiangfan, respectively;

(n) an agency agreement dated July 3, 2010 between Jiangxi Forest and ZXTF, pursuant to which Jiangxi Forest engaged ZXTF as its agent in relation to the acquisition of forestry resources in the PRC with a total area of 7,761.8 mu for a total consideration of RMB4,657,080 (inclusive of the acquisition cost of the forestry resources and the agency fees);

(o) an agency agreement dated July 3, 2010 between Jiangxi Forest and ZXTF, pursuant to which Jiangxi Forest engaged ZXTF as its agent in relation to the acquisition of forestry resources in the PRC with a total area of 8,822.8 mu for a total consideration of RMB5,293,680 (inclusive of the acquisition cost of the forestry resources and the agency fees);

(p) an agency agreement dated July 3, 2010 between Jiangxi Forest and ZXTF, pursuant to which Jiangxi Forest engaged ZXTF as its agent in relation to the acquisition of forestry resources in the PRC with a total area of 7,635.3 mu for a total consideration of RMB4,581,180 (inclusive of the acquisition cost of the forestry resources and the agency fees);

(q) a guarantee agreement dated June 7, 2010 between Guangdong Yingran and Guangdong Development Bank Company Ltd., Shunde branch (廣東發展銀行股份有限公司順德分行) in relation to a loan facility of up to RMB20,000,000;

(r) a guarantee agreement dated June 7, 2010 between Zhongshan Nature and Guangdong Development Bank Company Ltd., Shunde branch (廣東發展銀行股份有限公司順德分行) in relation to a loan facility of up to RMB20,000,000;

(s) a mortgage agreement dated June 10, 2010 between Industrial and Commercial Bank of China Limited, Shunde, Foshan branch (中國工商銀行股份有限公司佛山順德支行) and Zhangjiagang Nature, pursuant to which Zhangjiagang Nature granted to Industrial and Commercial Bank of China Limited, Shunde, Foshan branch (中國工商銀行股份有限公司佛山順德支行) certain security interest to secure a loan of up to RMB15,979,273;

(t) a mortgage agreement dated June 10, 2010 between Industrial and Commercial Bank of China Limited, Shunde, Foshan branch (中國工商銀行股份有限公司佛山順德支行) and Zhangjiagang Nature, pursuant to which Zhangjiagang Nature granted to Industrial and Commercial Bank of China Limited, Shunde, Foshan branch

(中國工商銀行股份有限公司佛山順德支行) certain security interest to secure a loan of up to RMB30,860,905;

(u) a deed of guarantee and indemnity dated October 1, 2009 from the Company in favor of BNP Paribas to guarantee the liabilities of YS Nature International Trading Co., Ltd.;

(v) a letter of guarantee dated March 25, 2010 from the Company to The Hongkong and Shanghai Banking Corporation Limited for HK$80,000,000;

(w) a cross guarantee dated May 27, 2010 from YS Nature International Trading Company Limited and Cheerway Industrial Limited for HK$80,000,000;

(x) a deed of guarantee and indemnity dated July 1, 2010 from the Company in favor of BNP Paribas to guarantee the liabilities of Cheerway Industrial Limited;

(y) a deed of guarantee and indemnity dated July 1, 2010 from Grace Glory Limited in favor of BNP Paribas to guarantee the liabilities of YS Nature International Trading Co., Ltd. and Cheerway Industrial Limited;

(z) a deed of guarantee and indemnity dated July 1, 2010 from Prime World International Investment Limited in favor of BNP Paribas to guarantee the liabilities of YS Nature International Trading Co., Ltd. and Cheerway Industrial Limited;

(aa) a security agreement over bank account (all moneys) dated July 16, 2010 between Cheerway Industrial Limited and Standard Chartered Bank (Hong Kong) Limited pursuant to which Cheerway Industrial Limited granted to Standard Chartered Bank (Hong Kong) Limited certain security interests;

(bb) a pledge over deposit and account management agreement dated July 16, 2010 amongst Cheerway Industrial Limited, Standard Chartered Bank (China) Limited Guangzhou Branch and Standard Chartered Bank (Hong Kong) Limited pursuant to which Cheerway Industrial Limited granted to Standard Chartered Bank (Hong Kong) Limited certain security interests;

(cc) the share transfer agreement dated December 9, 2010 entered into between China Wood Flooring Holding Company Limited (中國木地板控股有限公司) and Jumbo Hawk Immigration Consultancy Limited (鵬王移民顧問有限公司) pursuant to which China Wood Flooring Holding Company Limited (中國木地板控股有限公司) transferred its entire shareholding interest in Asia Hero Enterprises Limited to Jumbo Hawk Immigration Consultancy Limited (鵬王移民顧問有限公司) for a consideration of HK$48,000,000;

(dd) ●;

(ee) a supplemental deed dated May 6, 2011, entered into between the Company, MS Flooring, IFC and the Controlling Shareholders to amend the provisions of the Shareholders' Agreement; and

(ff) ●.

2. Our intellectual property rights

As of the Latest Practicable Date, our Group has registered or has applied for the registration of the following intellectual property rights which are material in the relation to our Group's business.

(a) Trademarks

(i) As of the Latest Practicable Date, our Group had registered the following trademarks which are material in relation to our Group's business:

Trademark	Territory of Registration	Registered Owner	Class	Registration Number	Expiry Date
	China	Cheerway Industrial Limited	1	7470704	10/20/2020
	China	Cheerway Industrial Limited	2	7470714	10/20/2020
	China	Cheerway Industrial Limited	3	7470728	12/20/2020
	China	Cheerway Industrial Limited	4	7470766	10/20/2020
	China	Cheerway Industrial Limited	5	7470793	10/20/2020
	China	Cheerway Industrial Limited	8	7470824	02/20/2021
	China	Cheerway Industrial Limited	10	7473901	01/20/2021
	China	Cheerway Industrial Limited	11	7470886	02/20/2021
	China	Cheerway Industrial Limited	12	7488471	01/06/2021
	China	Cheerway Industrial Limited	13	7470914	01/20/2021
	China	Cheerway Industrial Limited	14	7508914	10/27/2020

Trademark	Territory of Registration	Registered Owner	Class	Registration Number	Expiry Date
	China	Cheerway Industrial Limited	15	7473931	10/13/2020
	China	Cheerway Industrial Limited	17	7473942	09/20/2020
	China	Cheerway Industrial Limited	18	7473956	02/27/2021
	China	Cheerway Industrial Limited	19	7473980	09/27/2020
	China	Great Nature Investments and Holdings Limited	19	4587249	09/06/2018
	Hong Kong	Great Nature Investments and Holdings Limited	19	300756090AB	11/07/2016
	China	Cheerway Industrial Limited	20	7508996	10/27/2020
	China	Cheerway Industrial Limited	21	7473997	03/13/2021
	China	Cheerway Industrial Limited	22	7488486	02/13/2021
	China	Cheerway Industrial Limited	23	7488500	11/20/2020
	China	Cheerway Industrial Limited	24	7488519	02/13/2021
	China	Cheerway Industrial Limited	26	7484003	01/06/2021
	China	Cheerway Industrial Limited	27	7488551	11/20/2020

Trademark	Territory of Registration	Registered Owner	Class	Registration Number	Expiry Date
	China	Cheerway Industrial Limited	28	7488566	11/20/2020
	China	Cheerway Industrial Limited	29	7474025	10/27/2020
	China	Cheerway Industrial Limited	30	7474040	09/06/2020
	China	Cheerway Industrial Limited	31	7483905	11/06/2020
	China	Cheerway Industrial Limited	32	7483911	10/20/2020
	China	Cheerway Industrial Limited	33	7483922	10/06/2020
	China	Cheerway Industrial Limited	34	7483930	11/06/2020
	China	Cheerway Industrial Limited	35	7483939	02/27/2021
	China	Cheerway Industrial Limited	36	7483948	11/06/2020
	China	Cheerway Industrial Limited	37	7483961	11/06/2020
	China	Cheerway Industrial Limited	38	7483984	11/06/2020
	China	Cheerway Industrial Limited	40	7508831	11/06/2020
	China	Cheerway Industrial Limited	44	7508869	02/27/2021
	China	Cheerway Industrial Limited	45	7508890	11/27/2020

Trademark	Territory of Registration	Registered Owner	Class	Registration Number	Expiry Date
	China	Cheerway Industrial Limited	19	6743607	04/06/2020
Nature	China	Cheerway Industrial Limited	8	7511672	02/06/2021
Nature	China	Cheerway Industrial Limited	9	7511690	02/20/2021
Nature	China	Cheerway Industrial Limited	18	7511722	12/27/2020
Nature	China	Cheerway Industrial Limited	28	7514667	12/27/2020
Nature	China	Great Nature Investments and Holdings Limited	19	7511733	12/27/2020
Nature	China	Great Nature Investments and Holdings Limited	19	5326609	10/13/2020
Nature	China	Cheerway Industrial Limited	43	7518146	02/27/2021
Nature	China	Cheerway Industrial Limited	45	7518156	02/27/2021
Nature	Australia	Cheerway Industrial Limited	19	1216924	12/21/2017
Nature	Columbia	Cheerway Industrial Limited	19	404265	07/14/2020
Nature	Japan	Cheerway Industrial Limited	19	5399318	03/18/2021
Nature	European Union	Cheerway Industrial Limited	19, 20, 27	008466088	08/03/2019

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

Trademark	Territory of Registration	Registered Owner	Class	Registration Number	Expiry Date
Nature	Kuwait	Cheerway Industrial Limited	19	85619	11/03/2019
Nature	Macau	Cheerway Industrial Limited	19	N/045682	03/24/2017
Nature	Member States of African Intellectual Property Organization (OAPI)	Cheerway Industrial Limited	19, 20, 27	62409	05/27/2020
Nature	Hong Kong	Great Nature Investments and Holdings Limited	19	300756090AA	11/07/2016
Nature	Turkey	Cheerway Industrial Limited	19	2009/48222	09/10/2019
Nature	United Arab Emirates	Cheerway Industrial Limited	19	135780	11/11/2019
Nature	Canada	Cheerway Industrial Limited	*Note 1*	TMA794112	03/29/2026
Nature Flooring	USA	Great Nature Investments and Holdings Limited	19	3794177	05/25/2020
Nature Flooring	USA	Great Nature Investments and Holdings Limited	19	3794176	05/25/2020
大自然	China	Cheerway Industrial Limited	1	7518166	01/13/2021
大自然	China	Cheerway Industrial Limited	4	7525610	12/20/2020
大自然	China	Cheerway Industrial Limited	11	7518181	02/06/2021

Trademark	Territory of Registration	Registered Owner	Class	Registration Number	Expiry Date
大自然	China	Cheerway Industrial Limited	18	7522484	12/27/2020
大自然	China	Cheerway Industrial Limited	20	7522504	03/13/2021
大自然	China	Cheerway Industrial Limited	22	7525577	12/27/2020
大自然	China	Great Nature Investments and Holdings Limited	19	4587176	08/06/2018
大自然	China	Great Nature Investments and Holdings Limited	19	3453872	11/13/2015
我愛大自然	China	Great Nature Investments and Holdings Limited	19	6183056	02/20/2020
大自然自家	China	Great Nature Investments and Holdings Limited	19	6220988	02/20/2020
大自然阿莫林	China	Great Nature Investments and Holdings Limited	19	7757416	11/27/2020
大自然阿莫林	China	Great Nature Investments and Holdings Limited	30	7757442	12/06/2020
大自然阿莫林	China	Great Nature Investments and Holdings Limited	33	7757483	12/06/2020
大自然第一空间	China	Great Nature Investments and Holdings Limited	19	6183016	03/06/2020

Trademark	Territory of Registration	Registered Owner	Class	Registration Number	Expiry Date
大自然楼梯	China	Great Nature Investments and Holdings Limited	19	7403065	12/27/2020
大自然楼梯 Nature	China	Great Nature Investments and Holdings Limited	19	7403063	12/27/2020
盈彬大自然	China	Great Nature Investments and Holdings Limited	36	3674063	11/20/2015
盈彬大自然	China	Great Nature Investments and Holdings Limited	20	3674065	08/20/2015
	China	Great Nature Investments and Holdings Limited	19	1564804 *(Note 2)*	05/06/2011
盈彬大自然	China	Great Nature Investments and Holdings Limited	19	1761140	05/06/2012
YING BIN NATURAL 盈彬大自然	China	Great Nature Investments and Holdings Limited	5	3193454	10/27/2013
YING BIN NATURAL 盈彬大自然	China	Great Nature Investments and Holdings Limited	19	3229641	10/20/2013
盈彬新时空	China	Great Nature Investments and Holdings Limited	19	6189860	02/20/2020

Trademark	Territory of Registration	Registered Owner	Class	Registration Number	Expiry Date
盈彬宜家	China	Great Nature Investments and Holdings Limited	19	6189861	02/20/2020
万钻地板	China	Great Nature Investments and Holdings Limited	19	7757567	11/27/2020
迪老	China	Cheerway Industrial Limited	19	6757948	04/06/2020
80后	China	Cheerway Industrial Limited	19	6757962	04/13/2020
彩拼	China	Cheerway Industrial Limited	19	6757963	06/27/2020
德狮堡	China	Nature Flooring Industries, Inc.	19	6183058	02/20/2020

(ii) As of the Latest Practicable Date, our Group had applied for the registration of the following trademarks, the registration of which has not been granted:

Trademark	Territory of Registration	Applicant	Class	Application Number
	China	Cheerway Industrial Limited	6	7470804
	China	Cheerway Industrial Limited	7	7508947
	China	Cheerway Industrial Limited	9	7470845
	China	Cheerway Industrial Limited	16	7473919
	China	Cheerway Industrial Limited	25	7474007
	China	Cheerway Industrial Limited	39	7508824
Nature	China	Great Nature Investments and Holdings Limited	19	7403064

Trademark	Territory of Registration	Applicant	Class	Application Number
Nature	China	Cheerway Industrial Limited	1	7498425
Nature	China	Cheerway Industrial Limited	11	7511703
Nature	China	Cheerway Industrial Limited	21	7511757
Nature	China	Cheerway Industrial Limited	25	7514661
Nature	China	Cheerway Industrial Limited	30	7514677
Nature	China	Cheerway Industrial Limited	35	7514709
Nature	China	Cheerway Industrial Limited	36	7514714
Nature	China	Cheerway Industrial Limited	37	7514718
Nature	China	Cheerway Industrial Limited	42	7518144
Nature	China	Cheerway Industrial Limited	44	7518153
Nature	India	Cheerway Industrial Limited	19	01875084
Nature	Brazil	Cheerway Industrial Limited	19	901959324
Nature	Thailand	Cheerway Industrial Limited	19	748232
WOODSBŪR	China	Great Nature Investments and Holdings Limited	19	9269992
WOODSBŪR	China	Great Nature Investments and Holdings Limited	20	9270001
大自然	China	Cheerway Industrial Limited	3	7518170
大自然	China	Cheerway Industrial Limited	30	7522510
大自然	China	Cheerway Industrial Limited	35	7522573
大自然	China	Cheerway Industrial Limited	37	7522531

Trademark	Territory of Registration	Applicant	Class	Application Number
大自然	China	Cheerway Industrial Limited	41	7522535
大自然	China	Cheerway Industrial Limited	42	7522548
大自然	China	Cheerway Industrial Limited	43	7525477
大自然	China	Cheerway Industrial Limited	45	7525465
德狮堡	China	Great Nature Investments and Holdings Limited	1	8604118
德狮堡	China	Great Nature Investments and Holdings Limited	2	8604136
德狮堡	China	Great Nature Investments and Holdings Limited	6	8604150
德狮堡	China	Great Nature Investments and Holdings Limited	19	8604164
德狮堡	China	Great Nature Investments and Holdings Limited	20	8604333
德狮堡	China	Great Nature Investments and Holdings Limited	24	8604361
德狮堡	China	Great Nature Investments and Holdings Limited	27	8604383
德狮堡	China	Great Nature Investments and Holdings Limited	35	8604413
德狮堡	China	Great Nature Investments and Holdings Limited	37	8604438
德狮堡	China	Great Nature Investments and Holdings Limited	40	8604466
德森堡	China	Great Nature Investments and Holdings Limited	19	8994104
温莎堡	China	Great Nature Investments and Holdings Limited	20	8994231
大自然宜家	China	Great Nature Investments and Holdings Limited	1	8643343
大自然宜家	China	Great Nature Investments and Holdings Limited	2	8643453
大自然宜家	China	Great Nature Investments and Holdings Limited	6	8643483
大自然宜家	China	Great Nature Investments and Holdings Limited	19	8643523

Trademark	Territory of Registration	Applicant	Class	Application Number
大自然宜家	China	Great Nature Investments and Holdings Limited	20	8643569
大自然宜家	China	Great Nature Investments and Holdings Limited	24	8643587
大自然宜家	China	Great Nature Investments and Holdings Limited	27	8643657
大自然宜家	China	Great Nature Investments and Holdings Limited	35	8645950
大自然宜家	China	Great Nature Investments and Holdings Limited	37	8646149
大自然宜家	China	Great Nature Investments and Holdings Limited	40	8646198
大自然温莎	China	Great Nature Investments and Holdings Limited	20	8994301
大自然拉菲	China	Great Nature Investments and Holdings Limited	19	9248949
大自然・拉菲	China	Great Nature Investments and Holdings Limited	19	9248983
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	1	8608752
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	2	8608788
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	6	8608964
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	19	8608986
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	20	8609076
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	24	8609111
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	27	8609142
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	35	8609216
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	37	8609253
大自然·德狮堡	China	Great Nature Investments and Holdings Limited	40	8609293
大自然德狮堡	China	Great Nature Investments and Holdings Limited	1	8599777
大自然德狮堡	China	Great Nature Investments and Holdings Limited	2	8599815

Trademark	Territory of Registration	Applicant	Class	Application Number
大自然德狮堡	China	Great Nature Investments and Holdings Limited	6	8599839
大自然德狮堡	China	Great Nature Investments and Holdings Limited	19	8599860
大自然德狮堡	China	Great Nature Investments and Holdings Limited	20	8599884
大自然德狮堡	China	Great Nature Investments and Holdings Limited	24	8599907
大自然德狮堡	China	Great Nature Investments and Holdings Limited	27	8600014
大自然德狮堡	China	Great Nature Investments and Holdings Limited	35	8600028
大自然德狮堡	China	Great Nature Investments and Holdings Limited	37	8600036
大自然德狮堡	China	Great Nature Investments and Holdings Limited	40	8600056
大自然阿莫林	China	Great Nature Investments and Holdings Limited	27	7757427
大自然德森堡	China	Great Nature Investments and Holdings Limited	19	8994183
大自然温莎堡	China	Great Nature Investments and Holdings Limited	20	8994242
大自然第一空间	China	Great Nature Investments and Holdings Limited	1	8637098
大自然第一空间	China	Great Nature Investments and Holdings Limited	2	8637142
大自然第一空间	China	Great Nature Investments and Holdings Limited	6	8637188
大自然第一空间	China	Great Nature Investments and Holdings Limited	19	8637228
大自然第一空间	China	Great Nature Investments and Holdings Limited	20	8637271
大自然第一空间	China	Great Nature Investments and Holdings Limited	24	8637321
大自然第一空间	China	Great Nature Investments and Holdings Limited	27	8637357
大自然第一空间	China	Great Nature Investments and Holdings Limited	35	8641750

Trademark	Territory of Registration	Applicant	Class	Application Number
大自然第一空间	China	Great Nature Investments and Holdings Limited	37	8641789
大自然第一空间	China	Great Nature Investments and Holdings Limited	40	8641831
大自然地板 | 美学馆 Nature Flooring Aesthetics Gallery	China	Cheerway Industrial Limited	19	6829952
大自然地板 | 美学馆 Nature Flooring Aesthetics Gallery	China	Great Nature Investments and Holdings Limited	19	6857585
大自然地板 | 美学馆 Nature Flooring Aesthetics Gallery	China	Cheerway Industrial Limited	35	6890606
大自然淘宝店 Nature	China	Great Nature Investments and Holdings Company Limited	19	7531594
大自然淘宝店 Nature	China	Cheerway Industrial Limited	35	7551161
大自然 Nature	China	Great Nature Investments and Holdings Limited	19	8768489
大自然 Nature	Hong Kong	Cheerway Industrial Limited	19, 35, 37	301748278
大自然地板 Nature	Hong Kong	Cheerway Industrial Limited	19, 35, 37	301748269
大自然地板 Nature	China	Great Nature Investments and Holdings Limited	19	6829951
大自然地板 Nature	China	Great Nature Investments and Holdings Limited	19	6857586
大自然宜家	China	Great Nature Investments and Holdings Limited	19	6857587
大自然宜家 Nature	China	Great Nature Investments and Holdings Limited	19	6878446

Trademark	Territory of Registration	Applicant	Class	Application Number
大自然家居 Nature	China	Great Nature Investments and Holdings Limited	7	8742947
大自然家居 Nature	China	Great Nature Investments and Holdings Limited	11	8743004
大自然家居 Nature	China	Great Nature Investments and Holdings Limited	19	8743018
大自然家居 Nature	China	Great Nature Investments and Holdings Limited	20	8743050
大自然家居 Nature	China	Great Nature Investments and Holdings Limited	21	8743061
大自然家居 Nature	China	Great Nature Investments and Holdings Limited	24	8745518
大自然家居 Nature	China	Great Nature Investments and Holdings Limited	27	8745573
大自然家居 Nature	China	Great Nature Investments and Holdings Limited	35	8784438
大自然家居	China	Great Nature Investments and Holdings Limited	7	8742935
大自然家居	China	Great Nature Investments and Holdings Limited	11	8742994
大自然家居	China	Great Nature Investments and Holdings Limited	19	8743025
大自然家居	China	Great Nature Investments and Holdings Limited	20	8743041
大自然家居	China	Great Nature Investments and Holdings Limited	21	8745418
大自然家居	China	Great Nature Investments and Holdings Limited	24	8745493
大自然家居	China	Great Nature Investments and Holdings Limited	27	8745606
大自然家居	China	Great Nature Investments and Holdings Limited	35	8784427
	China	Great Nature Investments and Holdings Limited	19	8779547
大自然创意	China	Great Nature Investments and Holdings Limited	19	7466182

Trademark	Territory of Registration	Applicant	Class	Application Number
大自然精彩	China	Great Nature Investments and Holdings Limited	19	7488580
大自然绘彩	China	Great Nature Investments and Holdings Limited	19	7466192
大自然居家	China	Great Nature Investments and Holdings Limited	35	8832404
大自然美饰	China	Great Nature Investments and Holdings Limited	35	8832382
大自然饰家	China	Great Nature Investments and Holdings Limited	35	8832395
大自然饰界	China	Great Nature Investments and Holdings Limited	35	8832388
创意	China	Cheerway Industrial Limited	19	7466188
绘彩	China	Cheerway Industrial Limited	19	7466199
万钻	China	Great Nature Investments and Holding Company Limited	2	8076100
可速	China	Great Nature Investments and Holdings Limited	19	9269955
速材	China	Great Nature Investments and Holdings Limited	19	9269968
可速生	China	Great Nature Investments and Holdings Limited	19	9269962
速升材	China	Great Nature Investments and Holdings Limited	19	9269938
	China	Great Nature Investments and Holding Limited	19	8994405
	China	Great Nature Investments and Holding Limited	20	8994384
	China	Great Nature Investments and Holding Limited	35	8994437
大自然品味元素	China	Great Nature Investments and Holding Limited	1	8994501
大自然品味元素	China	Great Nature Investments and Holding Limited	2	8994531

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Trademark	Territory of Registration	Applicant	Class	Application Number
大自然品味元素	China	Great Nature Investments and Holding Limited	3	8997453
大自然品味元素	China	Great Nature Investments and Holding Limited	4	8997658
大自然品味元素	China	Great Nature Investments and Holding Limited	6	8997711
大自然品味元素	China	Great Nature Investments and Holding Limited	7	8997742
大自然品味元素	China	Great Nature Investments and Holding Limited	11	8997773
大自然品味元素	China	Great Nature Investments and Holding Limited	14	8997809
大自然品味元素	China	Great Nature Investments and Holding Limited	16	8997849
大自然品味元素	China	Great Nature Investments and Holding Limited	19	8997876
大自然品味元素	China	Great Nature Investments and Holding Limited	20	8997901
大自然品味元素	China	Great Nature Investments and Holding Limited	21	9002508
大自然品味元素	China	Great Nature Investments and Holding Limited	24	9002540
大自然品味元素	China	Great Nature Investments and Holding Limited	25	9002566
大自然品味元素	China	Great Nature Investments and Holding Limited	26	9002611
大自然品味元素	China	Great Nature Investments and Holding Limited	27	9002632
大自然品味元素	China	Great Nature Investments and Holding Limited	31	9002670
大自然品味元素	China	Great Nature Investments and Holding Limited	35	9002727
大自然品味元素	China	Great Nature Investments and Holding Limited	39	9002757

Class 1: Chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry.

Class 2: Paints, varnishes, lacquers; preservatives against rust and against deterioration of wood; colorants; mordants; raw natural resins; metals in foil and powder form for painters, decorators, printers and artists.

Class 3: Bleaching preparations and other substances for laundry use; cleaning, polishing, scouring and abrasive preparations; soaps; perfumery, essential oils, cosmetics, hair lotions; dentifrices.

Class 4: Industrial oils and greases; lubricants; dust absorbing, wetting and binding compositions; fuels (including motor spirit) and illuminants; candles and wicks for lighting.

Class 5: Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic substances adapted for medical use, food for babies; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

Class 6: Common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores.

Class 7: Machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs.

Class 8: Hand tools and implements (hand-operated); cutlery; side arms; razors.

Class 9: Scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment and computers; fire-extinguishing apparatus.

Class 10: Surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopedic articles; suture materials.

Class 11: Apparatus for lighting, heating, steam generating, cooking, refrigerating, drying, ventilating, water supply and sanitary purposes.

Class 12: Vehicles; apparatus for locomotion by land, air or water.

Class 13: Firearms; ammunition and projectiles; explosives; fireworks.

Class 14: Precious metals and their alloys and goods in precious metals or coated therewith, not included in other classes; jewellery, precious stones; horological and chronometric instruments.

Class 15: Musical instruments.

Class 16: Paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.

Class 17: Rubber, gutta-percha, gum, asbestos, mica and goods made from these materials and not included in other classes; plastics in extruded form for use in manufacture; packing, stopping and insulating materials; flexible pipes, not of metal.

Class 18: Leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides; trunks and travelling bags; umbrellas, parasols and walking sticks; whips, harness and saddlery.

Class 19: Building materials (non-metallic); non-metallic rigid pipes for building; asphalt, pitch and bitumen; non-metallic transportable buildings; monuments, not of metal.

Class 20: Furniture, mirrors, picture frames; goods (not included in other classes) of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum and substitutes for all these materials, or of plastics.

Class 21: Household or kitchen utensils and containers; combs and sponges; brushes (except paint brushes); brush-making materials; articles for cleaning purposes; steelwool; unworked or semi-worked glass (except glass used in building); glassware, porcelain and earthenware not included in other classes.

Class 22: Ropes, string, nets, tents, awnings, tarpaulins, sails, sacks and bags (not included in other classes); padding and stuffing materials (except of rubber or plastics); raw fibrous textile materials.

Class 23: Yarns and threads, for textile use.

Class 24: Textiles and textile goods, not included in other classes; bed and table covers.

Class 25: Clothing, footwear, headgear.

Class 26: Lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers.

Class 27: Carpets, rugs, mats and matting, linoleum and other materials for covering existing floors; wall hangings (non-textile).

Class 28: Games and playthings; gymnastic and sporting articles not included in other classes; decorations for Christmas trees.

Class 29: Meat, fish, poultry and game; meat extracts; preserved, frozen, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs, milk and milk products; edible oils and fats.

Class 30: Coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee; flour and preparations made from cereals, bread, pastry and confectionery, ices; honey, treacle; yeast, baking-powder; salt, mustard; vinegar, sauces (condiments); spices; ice.

Class 31: Agricultural, horticultural and forestry products and grains not included in other classes; live animals; fresh fruits and vegetables; seeds, natural plants and flowers; foodstuffs for animals, malt.

Class 32: Beers; mineral and aerated waters and other non-alcoholic drinks; fruit drinks and fruit juices; syrups and other preparations for making beverages.

Class 33: Alcoholic beverages (except beers).

Class 34: Tobacco; smokers' articles; matches.

Class 35: Advertising; business management; business administration; office functions.

Class 36: Insurance; financial affairs; monetary affairs; real estate affairs.

Class 37: Building construction; repair; installation services.

Class 38: Telecommunications.

Class 39: Transport; packaging and storage of goods; travel arrangement.

Class 40: Treatment of materials.

Class 41: Education; providing of training; entertainment; sporting and cultural activities.

Class 42: Scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software.

Class 43: Services for providing food and drink; temporary accommodation.

Class 44: Medical services; veterinary services; hygienic and beauty care for human beings or animals; agriculture, horticulture and forestry services.

Class 45: Legal services; security services for the protection of property and individuals; personal and social services rendered by others to meet the needs of individuals.

Note 1: Floor boards; Floor tiles; Flooring namely solid wood flooring, multi layer flooring use of plywood as base with wood veneer laminated, three layer flooring use of plywood or solid wood as base with wood veneer laminated, laminated flooring use of fiber board as base with wood veneer laminated; Non-metal building materials namely lumber and wood; Non-metal construction materials namely lumber and wood; Building timber.

Note 2: Our Group has applied for the renewal of the trademark of registration number 1564804 within the required time period.

(b) Domain names

As at the Latest Practicable Date, our Group had registered the following domain names:

Domain name	Registered Owner	Expiry Date
china-flooring.com.hk	Ever Sharp Industrial Limited	04/27/2012
nature-hk.hk	Ever Sharp Industrial Limited	07/22/2011 *(Note 1)*
nature-1.cn	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2013
nature-cn.cn	China Flooring (PRC) Company Limited (大自然地板（中國）有限公司)	09/01/2014
nature-intl.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
space-1.cn	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2013
yeka-cn.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
東方宜家.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
東方宜家.中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
中國地板控股.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
中國地板控股.net	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
中國地板控股.中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
中國地板控股.公司	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
中國地板控股.網絡	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
大自然地板.net	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
大自然木業.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
大自然木業.net	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
大自然木業.中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
大自然木業.公司	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012

Domain name	Registered Owner	Expiry Date
宜家地板.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
宜家地板.中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
宜家地板.公司	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
德獅堡.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
德獅堡.net	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
德獅堡.中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
德獅堡地板.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
德獅堡地板.net	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
德獅堡地板.中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
德獅堡地板.公司	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
盈彬大自然.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
盈彬大自然.net	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
盈彬大自然. 中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
盈彬大自然. 公司	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
盈彬木業.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
盈彬木業.net	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
第一空間地板.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
第一空間地板.net	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
第一空間地板. 中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
第一空間地板. 公司	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012

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Domain name	Registered Owner	Expiry Date
美迪亞地板.com	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
美迪亞地板. 中國	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012
美迪亞地板. 公司	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	12/27/2012

Note:

(1) Our Company intends to renew this domain name when it expires on July 22, 2011. The type of domain names registered in Hong Kong which our Company purchases must be renewed annually.

(c) Patents

(i) As at the Latest Practicable Date, our Group has registered the following patents:

Patent	Territory of Registration	Registered Owner	Patent Number	Expiry Date
The production method and equipment for anti-slip wood flooring (一種防滑木地板的生產方法及其生產裝置)	China	Cheerway Industrial Limited	200510033240.2	02/06/2025
A type of wood flooring (一種木地板)	China	Cheerway Industrial Limited	200520060719.0	06/24/2015
Wood flooring (木地板)	China	Cheerway Industrial Limited	200520062761.6	08/07/2015
Wood flooring (木地板)	China	Cheerway Industrial Limited	200530063916.3	07/06/2015
A type of wood flooring with laser carving pattern (一種帶有激光雕刻圖案的木地板)	China	Cheerway Industrial Limited	200620057252.9	03/28/2016
A type of wood flooring (一種木地板)	China	Cheerway Industrial Limited	200620064781.1	09/17/2016
Component for installing baseboard (一種地腳線安裝構件)	China	Cheerway Industrial Limited	200710026992.5	02/13/2027
Film cutting machine and its inching device (一種切膜機及其寸動裝置)	China	Cheerway Industrial Limited	200710027220.3	03/16/2027
Production method of active ecological paint (一種活性生態漆的生產方法)	China	Cheerway Industrial Limited	200710028442.7	05/30/2027
A type of wood flooring (一種木地板)	China	Cheerway Industrial Limited	200720048846.8	02/13/2017
Baseboard (地腳線)	China	Cheerway Industrial Limited	200720049492.9	03/15/2017
Multi-layered engineered flooring (多層實木複合地板)	China	Cheerway Industrial Limited	200720052391.7	05/30/2017

Patent	Territory of Registration	Registered Owner	Patent Number	Expiry Date
Pure wood engineered flooring (純木複合地板)	China	Cheerway Industrial Limited	200720059415.1	11/05/2017
Bedroom flooring (臥室地板)	China	Cheerway Industrial Limited	200720059774.7	11/13/2017
A type of solid wood flooring (一種實木地板)	China	Cheerway Industrial Limited	200820045861.1	03/27/2018
A type of wood flooring (一種木地板)	China	Cheerway Industrial Limited	200820045862.6	03/27/2018
Wood flooring with tree's annual growth ring pattern on the surface (一種年輪紋表面木地板)	China	Cheerway Industrial Limited	200820045863.0	03/27/2018
Transfer printing abrasion-proof flooring (一種轉印耐磨地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200820051170.2	07/18/2018
A type of engineered flooring with heating system (一種複合地面供暖體)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200820205221.2	12/08/2018
A type of wood flooring with health benefits (一種健康木地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200920051225.4	02/10/2019
Balancing and enhancement chamber for wood planks (板材平衡養生室)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200920051541.1	02/17/2019
An improved structure for wood flooring (木地板的改良結構)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	02248518.X	10/08/2012
A type of wood flooring (一種木地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	02271086.8	06/16/2012
Craftwork flooring (工藝地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	02271461.8	07/02/2012
Improved wood flooring (改良木地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	02272371.4	08/08/2012
Composite structure for wood flooring (一種木地板的組合結構)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	02272852.X	08/29/2012
Craftwork flooring (工藝地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	02357697.9	07/02/2012

Patent	Territory of Registration	Registered Owner	Patent Number	Expiry Date
An improved structure for wood flooring (木地板的改良結構)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	03225194.7	04/15/2013
Engineered flooring (複合地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	03225195.5	04/15/2013
Moisture-resistant wood flooring (防潮木地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	03225345.1	04/21/2013
Ventilation engineered flooring (透氣複合地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	03267412.0	07/09/2013
Stickers (wood flooring) (標貼 (木地板))	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	03321021.7	03/20/2013
Board rack (展架 (大字型))	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	03364955.3	09/27/2013
Engineered flooring (實木複合木地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200320118698.4	11/25/2013
Wood flooring (engineered) (木地板(實木複合))	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200330117907.9	11/25/2013
A type of wood flooring (一種木地板)	China	Cheerway Industrial Limited	200420071542.X	07/11/2014
Anti-slip wood flooring (一種防滑木地板)	China	Cheerway Industrial Limited	200520054884.5	02/06/2015
A soundproof tongue and groove flooring (一種無聲企口地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200920058082.X	06/05/2019
Engineered flooring (複合地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200920237930.3	10/22/2019
Production method of laminated wood planks and laminating machine (板材覆膜生產工藝方法及覆膜機)	China	Cheerway Industrial Limited	200710027233.0	03/16/2027
A type of decorative board (一種裝飾板材)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200920268548.9	10/14/2019

Patent	Territory of Registration	Registered Owner	Patent Number	Expiry Date
Automatic painting device for floorboard edges and its paint manufacturing equipment (地板側面自動噴漆裝置及其噴漆生產設備)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200920276416.0	12/01/2019
Active ecological wood flooring and its production method (活性生態木地板及其製造方法)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910038290.8	03/24/2029

(ii) As at Latest Practicable Date, we had applied for the registration of the following patents, the registration of which has not been granted:

Patent	Territory of Registration	Applicant	Application Number
Balancing and enhancement chamber for wood planks and enhancement method for wood planks (板材平衡養生室及板材養生方法)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910037330.7
Elastic flooring and its production method (彈性地板及其生產方法)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910302905.3
Printed flooring and its production method (印刷地板及其生產方法)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910302906.8
A soundproof tongue and groove flooring (一種無聲企口地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910040084.0
A type of decorative board (一種裝飾板材)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910208576.6
Automatic painting device for floorboard edges, paint production equipment and automatic painting method (地板側面自動噴漆裝置、噴漆生產設備及自動噴漆方法)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910252981.8
A type of flooring and its installation structure (一種地板及其安裝結構)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910214334.8
A type of interlocking flooring (一種內鎖式鎖扣地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910214333.3
A type of laminated wood flooring (一種强化木地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	200910214332.9
A security alarm system and decorative board with burglar alarm function (一種防盜報警系統及帶防盜報警功能的裝飾板材)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020264163.8

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Patent	Territory of Registration	Applicant	Application Number
A type of laminated wood flooring with solid wood characteristics (一種實木型强化木質地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020518524.7
A type of flooring with pest repellent function (一種具有驅避有害生物功能的地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201010539023.1
A type of flooring with pest repellent function (一種具有驅避有害生物功能的地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020600715.8
A type of radiation-proof board, its production method and flooring using such radiation-proof board (一種防輻射板材及其製造方法及應用該防輻射板材的地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201010539037.3
A type of radiation-proof flooring (一種防輻射地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020600762.2
A type of flooring with self-cleaning function (一種具有自潔功能的地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201010580389.3
A type of flooring with self-cleaning function (一種具有自潔功能的地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020649673.7
UV hydra topcoat and flooring using such topcoat (UV水潤面漆及應用該面漆生產的地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201010580421.8
Hydra flooring (水潤地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020649663.3
A type of flooring with natural vegetable oil finish and its production method (一種天然植物油飾面地板及其製造方法)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201010580399.7
A type of flooring with natural vegetable oil finish (一種天然植物油飾面地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020649668.6
A type of tongue and groove adhesive flooring (一種膠粘企口地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201010580430.7
A type of tongue and groove adhesive flooring (一種膠粘企口地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020649682.6
A type of flooring with imprinted design and its production method (一種燙印藝術地板及其製造方法)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201010580425.6

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Patent	Territory of Registration	Applicant	Application Number
A type of flooring with imprinted design (一種燙印藝術地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020649651.0
A type of wood-and-stone mosaic flooring (一種木石拼花地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201010580443.4
A type of wood-and-stone mosaic flooring (一種木石拼花地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020649647.4
A new type of anti-bacteria flooring (一種新型抗菌健康地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201020608232.2
Magnetic health care board and flooring using such magnetic health care board (磁性保健板材及其應用的地板)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201120006024.X
Magnetic health care board, flooring using such magnetic health care board and the production method of the board or flooring (磁性保健板材及其應用的地板以及板材或地板的製造方法)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201110004152.5
A type of poplar wood modifier, method of applying such modifier to modify poplar wood and a type of modified poplar wood (一種楊木改性劑及應用其進行楊木改性的方法及一種改性楊木)	China	Guangdong Yingran Wood Industry Co. Ltd. (廣東盈然木業有限公司)	201110097966.8

We are not aware of any legal impediment to the registration of the above trademarks and patents which are pending registration.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of our Company or its associated corporation

Immediately following completion of ●, our Directors and chief executive will have the following interests and/or short positions in the shares, underlying shares and debentures of our Company or its associated corporations which will have to be notified to us and ● pursuant to ● (including interests and short positions which they are taken or deemed to have under such provisions of ●) or which will be required, pursuant to ●, to be entered in the register referred to therein, or which will be required, pursuant to ●, to be notified to us and ●:

Name	Nature of interest	Number of Shares held immediately after ●	Approximate percentage of shareholding immediately after ●
Mr. Se Hok Pan	Interest of controlled corporation	● (Note 1)	●%
Ms. Un Son I	Interest of controlled corporation	● (Note 1)	●%

Notes:

1. These ● Shares represent the interest which will be beneficially owned by Freewings immediately after ●. Freewings is owned as to 44.92% by Team One Investments, 39.81% by Trader World, 8.69% by Mr. She Jian Bin, 4.39% by Mr. Chow Chi Keung Savio and 2.19% by Mr. Nam Cheung Ming Louis.

   The entire issued share capital of Team One Investments is held by Mr. Se Hok Pan.

   The entire issued share capital of Trader World is held by Ms. Un Son I.

   Mr. Se Hok Pan and Ms. Un Son I are deemed under ● to be interested in all the Shares registered in the name of Freewings.

2. All interests stated are long positions.

2. Interests and short positions of the substantial shareholders in the Shares and underlying Shares

Save as disclosed in the section headed "Substantial Shareholders" in this document, our Directors or chief executive are not aware of any other person, not being a Director or chief executive of our Company, who has an interest or short position in the Shares and underlying Shares of our Company which ●, would fall to be disclosed to our Company under provisions of ●, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

3. Particulars of Directors' service agreements

Each of our executive Directors has entered into a service agreement with our Company on March 26, 2009 for an initial fixed period of five years commencing from January 1, 2009 unless and until terminated by the parties in accordance with the terms of the service agreements.

Pursuant to the service agreements, each of our executive Directors is entitled to an annual basic salary set out below as well as a discretionary annual bonus as may be determined by the Board based on the performance of our Group:

Director	Annual Basic Salary (pre-tax)
Mr. Se Hok Pan	MOP123,600 and RMB201,600
Ms. Un Son I	MOP240,000
Mr. She Jian Bin	MOP80,000 and RMB134,400
Mr. Chow Chi Keung Savio	MOP228,660

Save as disclosed above, none of the Directors has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

4. Directors' remuneration

The aggregate amounts of remuneration (including directors' fees, salaries, allowances, discretionary bonus, and other benefits in kind and, for the year ended December 31, 2008, including equity settled share-based payment expenses) which were paid to the Directors for the years ended December 31, 2008, 2009 and 2010 were approximately RMB7.4 million, RMB6.3 million and RMB6.3 million, respectively.

It is estimated that remuneration (excluding any discretionary bonus which may be paid) and benefits in kind (including the retirement benefit contribution) equivalent to approximately RMB7.0 million in aggregate will be payable to the Directors by our Company for the year ending December 31, 2011 under the arrangement in force as at the date of this document.

5. Fees or commissions received

● will receive a commission as mentioned in the paragraph headed ● in this document.

Save as disclosed in this document, none of our Directors or any of the persons whose names are listed in the paragraph headed ● in this appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within the two years preceding the date of this document.

6. Disclaimers

Save as disclosed in this document:

(i) so far as our Directors are aware, none of the Directors or chief executive of our Company has any interest and/or short position in the shares, underlying shares and debentures of our Company or any of its associated corporations which will have to be notified to us and ● pursuant to ● (including interests and short positions which he is taken or deemed to have under such provisions of ●) or which will be required, pursuant to ●, to be entered in the register referred to therein, or which will be required, pursuant to ●, to be notified to us and ●;

(ii) none of our Directors and ● has any direct or indirect interest in the promotion of our Company or any of our subsidiaries, or in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to, our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

(iii) none of our Directors and ● in this appendix is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to our business taken as a whole;

(iv) none of our Directors has any existing or proposed service contracts with our Company or any of our subsidiaries, excluding contracts which are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation);

(v) taking no account of any Shares which may be taken up under ●, none of the Directors or chief executive of our Company knows of any person, not being a Director or chief executive of our Company, who will, immediately following ●, have an interest or short position in the Shares and underlying Shares of our Company which, once ●, would fall to be disclosed to our Company under the provisions of ●, or, who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group;

(vi) none of ● has any shareholding in our Company or any of our subsidiaries or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries; and

(vii) none of the Directors, their respective associates, or shareholders who are interested in more than 5% of the issued share capital of our Company has any interest in our Company's five largest customers and five largest suppliers.

D. Share Option Schemes

1. Previous Share Option Scheme

Summary of terms

The Previous Share Option Scheme was approved and adopted by a written resolution passed by our then shareholders on December 16, 2008, and was subsequently amended pursuant to a written resolution passed by our then shareholders on June 30, 2010 and a written resolution of the Board on April 26, 2011.

The following is a summary of the principal terms of the Previous Share Option Scheme:

(a) Purpose

The purpose of the Previous Share Option Scheme is to incentivize and reward the eligible persons for their contribution to the Group and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

(b) Who may join

Eligible persons of the Previous Share Option Scheme include any employee (full-time or part-time) of our Company or any of our subsidiaries or investee companies.

(c) Maximum number of Shares in respect of which options may be granted

The maximum number of Shares that may be issued pursuant to the options granted under the Previous Share Option Scheme shall not exceed ● Shares, representing approximately ●% of the issued share capital of our Company.

(d) Acceptance of grant

An amount of HK$1.00 (or any equivalent amount in RMB) is payable by the option-holder upon acceptance of the grant of options.

(e) Subscription price

The subscription price for Shares issued upon the exercise of options granted under the Previous Share Option Scheme shall be determined by our Board, which shall be subject to adjustment in the

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event of any alteration to the capital structure of our Company. The subscription price shall be 120% of the fair market price per Shares as determined by an independent valuer appointed by our Company.

(f) Duration of the Previous Share Option Scheme

The Previous Share Option Scheme will remain in force from the date on which the Previous Share Option Scheme was adopted to ●. After the expiry of the duration of the Previous Share Option Scheme, no further options shall be offered but in all other respects the provisions of the Previous Share Option Scheme shall remain in force. Options (to the extent not already exercised) granted prior to such expiry shall continue to be valid and exercisable in accordance with the terms of the Previous Share Option Scheme.

(g) Time of vesting and exercise of options

Our Board may, when offering the grant of an option, specify the vesting period of the option and the performance targets that must be achieved before the option can be vested. There is a minimum period of 18 months from ● before a vested option can be exercised (the "Lock-up Period").

Any option shall lapse if not exercised within 10 years from the date of grant.

(h) Conditions of exercise of options

Any exercise of an option granted under the Previous Share Option Scheme is conditional upon:

(i) ●;

(ii) ●; and

(iii) ●.

In the event that any of the above conditions is not fulfilled on or before December 31, 2012 or such other date as determined by our shareholders in general meeting, the Previous Share Option Scheme shall be terminated and the options granted, or agreed to be granted, thereunder (whether vested or not) shall lapse.

(i) Ranking of the Shares

The Shares to be allotted and issued upon exercise of an option shall rank *pari passu* in all respects with the fully-paid Shares in issue on the date of allotment and will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment, other than any dividend or other distributions the record date of which is on or before the date of allotment.

(j) Rights are personal to the option-holders

An option is personal to the option-holder and shall not be transferable or assignable. No option-holder shall in any way sell, transfer, charge, mortgage, encumber or otherwise create any legal or beneficial interest in favor of any third party over or in relation to any option. Any breach of the foregoing by an option-holder shall entitle the Company to cancel any option granted to such option-holder to the extent not already exercised.

(k) Rights on cessation of employment

If an option-holder ceases to be an employee of our Group for any reason other than his death, serious misconduct or other grounds referred to in sub-paragraph (n) below, or his retirement or cessation of employment referred to in sub-paragraph (m) below, his options shall lapse on the date of his cessation of employment if such date falls within the Lock-up Period. If the date of his cessation of employment falls after the expiry of the Lock-up Period, the option-holder may, at any time within one month (or such longer period as determined by our Board) from the date of his cessation of employment, which date shall be his last working day with our Company or any subsidiaries or investee companies of our Company (regardless of whether salary is paid in lieu of notice), exercise his vested options (to the extent not already exercised).

(l) Rights on death

If an option-holder dies and that none of the grounds for dismissal as set out in sub-paragraph (n) below has occurred, his personal representative(s) may, at any time within one month from the expiry of the Lock-up Period (or such longer period as determined by the Board), exercise the options granted to such option-holder (to the extent vested and not already exercised on the date of death of such option-holder). If the date of death occurs after the expiry of the Lock-up Period, the personal representative(s) of the option-holder may, at any time within one month from the date of death of such option-holder (or such longer period as determined by the Board), exercise his options (to the extent vested and not already exercised on the date of death of such option-holder).

(m) Rights on retirement or cessation of employment as a result of illness, physical disability, etc.

If an option-holder retires or ceases to be employed pursuant to the terms of his employment contract or the law due to reasons such as illness, physical disability or injury and that none of the grounds for dismissal as set out in sub-paragraph (n) below has occurred, the option-holder may, at any time within one month from the expiry of the Lock-up Period (or such longer period as determined by the Board), exercise his options (to the extent vested and not already exercised on the date of his retirement or cessation of employment). If the date of his retirement or cessation of employment occurs after the expiry of the Lock-up Period, the option-holder may, at any time within one month from the date of his retirement or cessation of employment (or such longer period as determined by the Board), exercise his options (to the extent vested and not already exercised on the date of his retirement or cessation of employment).

(n) Lapse of options on serious misconduct, bankruptcy or summary dismissal, etc.

If an option-holder ceases to be employed by our Company or any subsidiaries or investee companies of our companies on the grounds that he has been guilty of serious misconduct or abuse of authority, has breached the confidence with our Company, is unable to pay his debts or becomes bankrupt, has made any arrangement or compromise with his creditors generally, has been convicted of any criminal offense, has seriously breached the discipline or the internal policy of our Company, has not accomplished or is not able to accomplish the reasonable duties assigned by our Company and such circumstances not being remedied after receiving the relevant notice from our Company, or has been summarily dismissed on any other grounds pursuant to his employment contract or the applicable law, his options (to the extent not already exercised and irrespective of whether they are vested or not) will lapse immediately on the date of his cessation of employment. To the extent the options that have already been exercised, our Company reserves the right to repurchase the Shares so issued at the exercise price.

The resolution of the Board or the board of directors of the relevant subsidiaries or investee companies of our Company to the effect that the employment of an option-holder has or has not been terminated on one or more grounds specified in this sub-paragraph shall be conclusive.

(o) Rights on ●

In the event that a ● (whether by way of a ●, ● or otherwise) is made to all the shareholders of our Company (or all such shareholders other than the ●, any person controlled by the ● and any person ● with the ●) and such ● becomes or is declared unconditional prior to the expiry date of the unexercised options, if the Lock-up Period has already expired, an option-holder (or his personal representative(s)) may, at any time within ten business days from the date on which the ● becomes or is declared unconditional, exercise his vested options (in whole or in part, and to the extent not already exercised). If the Lock-up Period has not yet expired, no options (whether they are vested or not) shall be exercisable.

(p) Rights on winding up

In the event that a resolution approving the voluntary winding up of our Company has been passed or that the court has ordered the winding up of our Company, an option-holder may, within 15 business days from the passing of such resolution, give a notice to our Company requesting our Company to treat his options (to the extent not already exercised and irrespective of whether they are vested or not) as having been exercised before the passing of such resolution. Such notice shall specify the number of Shares and be accompanied by the remittance of the exercise price for the Shares in respect of which the notice is given. Upon receiving such notice, the option-holder shall enjoy the same rights as the other shareholders of our Company and shall be entitled to receive the distribution of assets upon winding up of the Company, which amount shall be equivalent to the amount which holders of voting Shares are entitled to receive.

(q) Rights on restructuring or amalgamation

If our Company, for the purposes of restructuring or amalgamation with any other company or companies, proposes a compromise or arrangement to the shareholders or creditors of our Company, our Company shall give written notice thereof to all the option-holders on the same day as it gives notice to the shareholders or creditors summoning the meeting to consider such a compromise or arrangement. An option-holder may, forthwith and until the expiry of one calendar month from the issuance of notice by the Company or the sanction of the compromise or arrangement by the court (whichever is earlier), exercise his vested options (in whole or in part, and to the extent not already exercised and that the Lock-Up Period has already expired) on the condition that the compromise or arrangement be sanctioned by the court and becoming effective. Any vested Options which are still subject to the Lock-up Period shall not be exercisable.

With effect from the date of the aforesaid meeting, the rights of all option-holders to exercise their respective options shall forthwith be suspended. Our Company may require an option-holder to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the option-holder in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement. If for any reason such compromise or arrangement is not sanctioned by the court, the rights of the option-holders to exercise their respective options shall be restored and the options shall subject to the other terms of the Previous Share Option Scheme be continued to be exercisable, as if our Company has never proposed such compromise or arrangement.

(r) Lapse of option

An option shall lapse automatically and not exercisable (to the extent not already exercised) upon the earliest of:

(i) the expiry of the options;

(ii) the expiry of any of the periods referred to in sub-paragraphs (k), (l), (m) and (o);

(iii) subject to and under the circumstances referred to in sub-paragraph (p), the date of the commencement of winding up of our Company;

(iv) the date on which the compromise or arrangement referred to in sub-paragraph (q) becomes effective;

(v) the date on which an option-holder ceases to be an eligible person of the Previous Share Option Scheme by any reason referred to in sub-paragraph (n);

(vi) the date on which an option-holder is in breach of sub-paragraph (j);

(vii) if the options are granted to an option-holder subject to certain conditions, limitations or restrictions, the date on which the Board considers the option-holder to have failed to comply with such conditions, limitations or restrictions; and

(viii) the date on which the events referred to in the grant letter take place or the expiry of the period referred to in the grant letter.

(s) Effect of alteration to capital

In the event of any alteration to the capital structure of our Company while any option remains exercisable, whether by way of capitalization issue, rights issue, consolidation, sub-division or reduction of the share capital of our Company (other than the issue of shares as consideration by our

Company), such corresponding adjustments (if any) shall be made to the number of Shares subject to any outstanding options, the exercise price, the way that the options are to be exercised and/or the number of Shares subject to the Previous Share Option Scheme as the financial advisers of our Company shall certify in writing to our Board to be in their opinion fair and reasonable, provided that any such adjustments shall give an option-holder the same proportion of share capital of our Company to which he would have been entitled prior to such adjustments and no such adjustments shall be made the effect of which would enable a Share to be allotted and issued at less than its nominal value. No adjustments shall be made to the exercise price or the number of Shares to the benefits of any eligible persons without the approval of the shareholders of our Company.

The capacity of the financial advisers of our Company within the meaning of this sub-paragraph(s) is that of experts and not arbitrators and their certification shall be final and conclusive and binding on our Company and the option-holders.

(t) Cancellation of options

With the consent of the option-holder, our Board may cancel any options granted which have not yet been exercised nor lapsed. Any lapsed options shall also be cancelled. The Board may, at its discretion, grant to the option-holder new options to replace the cancelled options, provided that the Previous Share Option Scheme has not yet expired and that there is sufficient number of options which have not already been granted.

(u) Termination of the Previous Share Option Scheme

Our Company may at any time terminate the Previous Share Option Scheme with the approval of the Board or the shareholders of our Company. In such event, no further options shall be granted but in all other respects the provisions of the Previous Share Option Scheme shall remain in force. Options granted and accepted prior to such termination but not yet exercised shall continue to be valid and exercisable in accordance with the Previous Share Option Scheme.

(v) Alteration of the Previous Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

(i) any alteration to the advantage of the option-holders or prospective option-holders in relation to such matters as the purpose and duration of the Previous Share Option Scheme, the grant of options under the Previous Share Option Scheme, the exercise price, the exercise of options, the lapse of options, the maximum number of shares subject to the Previous Share Option Scheme, the cancellation of options, the effect of alteration to capital and the alteration of the Previous Share Option Scheme;

(ii) any alteration to the authority of the Board or the administrator of the Previous Share Option Scheme;

(iii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of the options granted (other than such alteration or change which shall automatically take effect under the existing terms of the Previous Share Option Scheme), shall be approved by the shareholders of our Company in general meeting. No such alteration shall be made if it will adversely affect the terms of any options granted or agreed to be granted prior to such alteration except with the consent or approval of the option-holders of not less than 50% of the Shares fall to be issued pursuant to the options granted under the Previous Share Option Scheme.

Outstanding options granted under the Previous Share Option Scheme

As at the date of this document, options to subscribe for an aggregate of ● Shares, representing approximately ●% of the issued share capital of our Company have been granted to 100 option-holders by our Company at a consideration of HK$1.00 each (or equivalent amount in RMB) under the Previous Share Option Scheme.

All the options granted under the Previous Share Option Scheme were granted either on December 17, 2008 or July 1, 2010. For the options granted on December 17, 2008, the exercise price per Share shall be HK$2.35. For the options granted on July 1, 2010, the exercise price per Share shall be HK$3.38.

Subject to the satisfactory performance of the option-holders, the options granted to each of the option-holders shall be vested in accordance with the following schedule:

For the options granted on December 17, 2008

Vesting period	Maximum cumulative percentage of options vested
December 30, 2008	10%
December 30, 2009	10%
December 30, of the year of ●	20%
December 30, of the year 12 months from ●	30%
December 30, of the year 24 months from ●	30%

For the options granted on July 1, 2010

Vesting period	Maximum cumulative percentage of options vested
December 30, 2010	20%
December 30, of the year of ●	20%
December 30, of the year 12 months from ●	30%
December 30, of the year 24 months from ●	30%

Each option granted under the Previous Share Option Scheme has a ten-year exercise option provided that none of the options (whether they are vested or not) shall be exercisable before the expiry of 18 months from ●.

As at date of this document, none of the options granted under the Previous Share Option Scheme has been exercised. No further options will be granted under the Previous Share Option Scheme prior to ●.

The options have been granted based on the performance of the option-holders who have made important contributions to and are important to the long term growth and profitability of our Group. Such 100 option-holders include a director of the subsidiaries of our Company, an Ultimate Controlling Shareholders (who is also a former Director), seven members of the senior management of our Company and 91 other employees of our Group.

We have applied for, and have been granted an exemption from ● from strict compliance with the disclosure requirements in connection with the information of the options granted under the Previous Share Option Scheme on the ground that full compliance with such disclosure requirements in setting out the names and addresses of, and the number of Shares represented by options granted under the Previous Share Option Scheme to, the employees of our Group and who are neither directors, former directors, members of senior management of our Group, connected persons of our Company nor employees of our Group with options to subscribe for ● Shares (post-Capitalization Issue and ●) each or more, would be unduly burdensome for our Company and would be of little significance or relevance to potential ● for the following reasons:

(a) the options granted under the Previous Share Option Scheme are considered as part of each grantee's remuneration package, and therefore information on options granted to each individual grantee is highly sensitive and confidential among the grantees. Disclosing such highly sensitive and confidential information in this document would prejudice the interests of our Company and therefore be unduly burdensome on our Company;

(b) the grant and exercise in full of the options granted under the Previous Share Option Scheme will not cause any material adverse impact in the financial position of our Company and in any event the total number of Shares to be issued upon exercise of the options granted under the Previous Share Option Scheme and the potential dilution effect will be set out in this document;

(c) non-compliance with the disclosure requirements does not prevent our Company from providing an informed assessment of our Company's activities, assets and liabilities, financial position, management and prospects to its potential ●;

(d) the important information, that is, the aggregate number of options outstanding, exercise price, vesting period, exercise period and the potential dilution effect on the shareholdings of our Company upon ● and the impact on the earnings per Share upon full exercise of the options granted under the Previous Share Option Scheme, is disclosed in this document and such information, together with other information contained in this document regarding the Previous Share Option Scheme, provides potential ● with sufficient information to make a relevant assessment of our Company in their decision-making process; and

(e) setting out the names, addresses and numbers of Shares represented by options for all 100 grantees on an individual basis would increase the number of pages in the document by about 30 pages (English and Chinese versions included) and therefore would be costly and unduly burdensome on our Company in light of the increase in cost for document printing.

A summary of the option-holders who have been granted options under the Previous Share Option Scheme is set out below.

Name of Option-holder	Position held within our Group	Address	Exercise price (HK$)	Date of grant	Number of Shares subject to the options	Approximate percentage of shareholding (%) (Note)
Director of our subsidiaries						
Liang Zhihua (梁志華)	General Manager of the Production Department	No. 5, Lane Seven, Taigen Garden, Taigen Road, Daliang Town, Shunde City, Guangdong Province, PRC	(i) ●	(i) December 17, 2008	(i) ●	—
			(ii) ●	(ii) July 1, 2010	(ii) ●	—
					●	●
Ultimate Controlling Shareholder and Former Director of the Company						
Nam Cheung Ming Louis (藍祥明)	Director of Assets Management Centre	2B, Block 34, Laguna City, Cha Kwo Ling, Kowloon, Hong Kong	●	December 17, 2008	●	●
Senior Management of the Group						
Teoh Chun Ming (張振明)	Chief Financial Officer and Company Secretary	Flat D, 18/F, Block 6, Verbena Heights, 8 Mau Tai Road, Tseung Kwan O, Hong Kong	(i) ●	(i) December 17, 2008	(i) ●	—
			(ii) ●	(ii) July 1, 2010	(ii) ●	—
					●	●

Name of Option-holder	Position held within our Group	Address	Exercise price (HK$)	Date of grant	Number of Shares subject to the options	Approximate percentage of shareholding (%) (Note)
Meng Qingyan (孟慶焰)	Director of the Planning and Management Department	No. 806, Liulin Road, Jingui Garden, Daliang, Shunde District, Foshan City, Guangdong Province, PRC	●	December 17, 2008	●	●
Lin Hao (林皓)	Executive Deputy General Manager of the Sales and Distribution Department	Unit 306, No. 103 Shihua East Road, Xiangzhou District, Zhuhai City, Guangdong Province, PRC	●	December 17, 2008	●	●
Shen Naiqiang (沈乃强)	Director of the Quality Assurance Centre	No. 163, Qiyong Road, Dayong Town, Zhongshan City, Guangdong Province, PRC	●	December 17, 2008	●	●
Li Zhengliang (李正亮)	General Manager of the Jiangxi Shangrao Project Department (江西上饒項目部)	No. 89, Sanqing Shanxi Avenue, Shangrao City, Jiangxi Province, PRC	●	December 17, 2008	●	●
Yang Shulin (楊樹林)	General Manager of the South America Department	Unit 1103, West Tower, No. 6 Xibahe South Road, Chaoyang District, Beijing, PRC	●	December 17, 2008	●	●
Rao Haiqing (饒海清)	Assistant to the General Manager of Sales and Distribution Department and Director of the Channel Department	Unit 502, Block A, Sunny Palace, Xinghua Road, Lecong Town, Shunde District, Foshan City, Guangdong Province, PRC	●	December 17, 2008	●	●
Subtotal of options granted to Senior Management of the Group:					●	●

Other option-holders whose options would entitle each of them to subscribe ● Shares or more

Name of Option-holder	Position held within our Group	Address	Exercise price (HK$)	Date of grant	Number of Shares subject to the options	Approximate percentage of shareholding (%) (Note)
Lei Sun (李璇)	Finance Manager	Em Macau, Rua Da Bacia Sul, The Praia Block 4, 24/F, Unit X, Macau	(i) ● (ii) ●	(i) December 17, 2008 (ii) July 1, 2010	(i) ● (ii) ●	— —
					●	●

THIS WEB PROOF INFORMATION PACK IS IN DRAFT FORM. The information contained in it is incomplete and is subject to change. This Web Proof Information Pack must be read in conjunction with the section headed "Warning" on the cover of this Web Proof Information Pack.

Name of Option-holder	Position held within our Group	Address	Exercise price (HK$)	Date of grant	Number of Shares subject to the options	Approximate percentage of shareholding (%) (Note)
Choi Weng Ha (蔡穎霞)	Finance Manager	No. 101 Rua De Paris EDF. Hil Fung (Tai Fung) 11-ANDAR-N Macau	(i) ● (ii) ●	(i) December 17, 2008 (ii) July 1, 2010	(i) ● (ii) ● ●	— — ●
Pei Xinmin (裴新民)	Director of the Financial Management Centre	Unit 706, Building. 11, Rongchao Garden, Buji Town, Shenzhen City, Guangdong Province, PRC	●	December 17, 2008	●	●
Yang Weiming (楊偉明)	General Manager of the Sales Department	No. 806 Liulin Road, Jingui Garden, Daliang, Shunde District, Foshan City, Guangdong Province, PRC	●	December 17, 2008	●	●
Liu Ruxin (劉儒新)	Director of the Sales Department	No. 8, Longpan West Road, New District, Shende District, Foshan City, Guangdong Province, PRC	●	December 17, 2008	●	●
Zhu Qinghai (朱清海)	Manager of the Products Department	Unit 102, Building 83, Chengshizhixin, Longwang Road, Huzhou City, Zhejiang Province, PRC	●	December 17, 2008	●	●
Jiang Wenchao (蔣文超)	Deputy Factory Director	Unit 511, Building. 5, Shangya Court, Nanguo Middle Road, Daliang, Shunde District, Foshan City, Guangdong Province, PRC	●	December 17, 2008	●	●
Fu Zhongzhi (付忠芝)	Manager of the Products Department	Unit 102, Building. 8, Guanghao Huating, Shalang Town, West Area, Zhongshan City, Guangdong Province, PRC	●	December 17, 2008	●	●

Name of Option-holder	Position held within our Group	Address	Exercise price (HK$)	Date of grant	Number of Shares subject to the options	Approximate percentage of shareholding (%) (Note)
Yang Gang (楊剛)	Director of the Sales Department	B1506, Cuiming Court, Baocui Garden, Nanguo East Road, Daliang, Shunde District, Foshan City, Guangdong Province, PRC	●	December 17, 2008	●	●
Zhang Kunming (張坤明)	Director of the Operations Department	No. 14, Wusha Hecheng Avenue, Daliang, Shunde District, Foshan City, Guangdong Province, PRC	●	December 17, 2008	●	●
Subtotal of holders with options to subscribe for ● Shares or more:					●	●
Other option-holders						
81 other employees of the Group			●	December 17, 2008	●	●
Grand Total:					●	●

Note: These percentages are calculated on the basis of ● Shares in issue immediately after ● and the Capitalization Issue without taking into account any Shares which may fall to be allotted and issued upon the exercise of ● and any options granted under the Previous Share Option Scheme.

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As no options granted under the Previous Share Option Scheme will be exercisable before the expiry of 18 months from ●, there will not be any dilutive effect on shareholding structure or impact on earnings per Shares due to the exercise of such options for the year ending December 31, 2011. In addition, as the options are exercisable over a ten years' period, any such dilutive effect on earnings per Share will be staggered over several years.

2. Share Option Scheme

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written resolution passed by our Shareholders on May 3, 2011.

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to incentivize and reward the Eligible Persons (as defined in sub-paragraph (b) below) for their contribution to our Company and the subsidiaries and associated companies of our Company and to align their interests with that of the Company so as to encourage them to work towards enhancing the value of the Company.

(b) Who may join

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to:

(i) an employee (whether full-time or part-time) or a director who is holding salaried office or employment with our Company or any subsidiaries or associated companies of our Company ("Eligible Employee");

(ii) a non-executive director of our Company or any subsidiaries or associated companies of our Company (including independent non-executive Director);

(iii) any customer, business or joint venture partner, adviser, consultant, contractor, supplier, agent, customer or service provider of our Company or any subsidiaries or associated companies of our Company who is an individual; or

(iv) any full-time employee of any customer, business or joint venture partner, adviser, consultant, contractor, supplier, agent, customer or service provider of our Company or any subsidiaries or associated companies of our Company,

who the Board considers, in its sole discretion, has contributed or will contribute to our Company or any subsidiaries or associated companies of our Company (collectively, the "**Eligible Persons**").

(c) Maximum number of Shares in respect of which options may be granted

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any options granted under any other share option schemes of our Company (including but not limited to the Previous Share Option Scheme) must not in aggregate exceed 10% of the Shares in issue as at ● (the "**Scheme Mandate Limit**"), excluding for this purpose options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company, provided that:

(i) the Board may, with the approval of the shareholders of our Company in general meeting, refresh the Scheme Mandate Limit provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any options to be granted under any other share option schemes of the Company under the Scheme Mandate Limit as refreshed shall not exceed 10% of the Shares in issue as at the date on which the shareholders of our Company approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our shareholders a circular containing the information required under ●;

(ii) the Board may, with the approval of the shareholders of our Company in general meeting, grant options to any Eligible Person specifically identified by them which would cause the Scheme Mandate Limit to be exceeded. Our Company shall send to our shareholders a circular containing, among other things, a generic description of the specified Eligible Person who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Person with an explanation as to how the terms of the options serve such purpose and such other information required under ●; and

(iii) the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any other share option schemes of our Company to Eligible Persons must not exceed 30% of the Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of our Company whether by way of capitalization of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of our Company provided that no such adjustment shall be made in the event of any issue of Shares as consideration in respect of a transaction.

(d) Maximum entitlement of each individual

No options shall be granted to any Eligible Person which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all Options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer, exceeds 1% of the Shares in issue at such date. Any further grant of options in excess of this 1% limit shall be subject to the approval of our shareholders in general meeting with such Eligible Person and his associates abstaining from voting. Our

Company shall send to our shareholders a circular containing the identity of the Eligible Person, the numbers and terms of the options to be granted (and options previously granted to such Eligible Participant) and such other information required under ●.

The number and terms (including the exercise price) of the options to be granted to such Eligible Person must be fixed before our shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

(e) Grant of options to connected persons

Any grant of options to a Director (including an independent non-executive Director), chief executive or substantial shareholder of the Company, or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an independent non-executive Director of the Company, or any of their respective associates, will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5 million,

such further grant of options by the Board must be approved by the shareholders of our Company in general meeting (the vote on such approval to be taken on a poll). Any shareholder of our Company who is a connected person of our Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person may vote against such resolution. Our Company shall send to our shareholders a circular containing the details of the number and terms (including the exercise price) of the options to be granted to each Eligible Person, which must be fixed before the shareholders' meeting, and the date of the Board meeting for approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

(f) Acceptance of an offer of options

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part payment of the exercise price.

(g) Exercise price

Subject to any adjustment made as described in sub-paragraph (u) below, the exercise price in respect of any option shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the higher of:

(i) ●;

(ii) ●; and

(iii) the nominal value of the Shares.

(h) Duration of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on ●, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

(i) Time of vesting and exercise of options

Any option shall be vested on an option-holder immediately upon his acceptance of the offer of options. Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed 10 years from the offer date of the option (the "**Option Period**").

An option shall be subject to such terms and conditions (if any) as may be determined by the Board at the date of offer and specified in the offer of the option. Such terms and conditions must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the shareholders of our Company. Notwithstanding the above, there is no minimum period for which any option must be held before it can be exercised and no performance target which need to be achieved by an option-holder before the option can be exercised.

If an option-holder is transferred to work in the PRC or another country and still continues to hold a salaried office or employment under a contract with our Company or any of the subsidiaries or associated companies of our Company, and as a result of that transfer, he either (i) suffers a tax disadvantage in relation to his options (this being shown to the satisfaction of the Board); or (ii) becomes subject to restrictions on his ability to exercise his options or to hold or deal in the Shares or the proceeds of the sale of the Shares acquired on exercise because of the security laws or exchange control laws of the PRC or the country to which he is transferred, then the Board may allow him to exercise his options during the period starting three months before and ending three months after the transfer takes place.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

(j) Restriction on the time of grant of options

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published. In particular, during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting for the approval of our Company's results for any year, half-year, quarterly or any other interim period; and

(ii) the deadline for our Company to publish an announcement of its results for any year or half-year, or quarterly or any other interim period,

and ending on the date of the results announcement, no option may be granted. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

(k) Ranking of the Shares

No dividends (and distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. Shares allotted and issued on the exercise of an option will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

(l) Rights are personal to the option-holders

Except for the transmission of an option on the death of an option-holder to his personal representatives, neither the option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any option-holder to any other person or entity. If an option-holder transfers, assigns or disposes of any such option or rights, whether voluntarily or involuntarily, then the relevant option will immediately lapse.

(m) Rights on voluntary resignation

If an option-holder ceases to be an Eligible Employee by reason of his voluntary resignation (other than in circumstances where he is constructively dismissed), any outstanding offer of options shall continue to be open for acceptance for such period as determined by the Board at its absolute discretion and notified to such Eligible Employee, and all options (to the extent not already exercised) will continue to be exercisable for such period as the Board may determine at its absolute discretion and notify to such Eligible Employee on the date of cessation of employment of such Eligible Employee.

(n) Rights on cessation of employment

If an option-holder ceases to be an Eligible Employee by reason of (i) his employer terminating his contract of employment in accordance with its terms or any right conferred on his employer by law, or (ii) his contract of employment, being a contract for a fixed term, expiring and not being renewed, or (iii) his employer terminating his contract for serious or gross misconduct, then any outstanding offer of an option and all options (to the extent not already exercised) will lapse on the date the option-holder ceases to be an Eligible Employee.

(o) Rights on death, disability, retirement and transfer

If an option-holder ceases to be an Eligible Employee by reason of:

(i) his death; or

(ii) his serious illness or injury which in the opinion of the Board renders the option-holder concerned unfit to perform the duties of his employment and which in the normal course would render the option-holder unfit to continue performing the duties under his contract of employment for the following 12 months provided such illness or injury is not self-inflicted; or

(iii) his retirement in accordance with the terms of an option-holder's contract of employment; or

(iv) his early retirement by agreement with the option-holder's employer; or

(v) his employer terminating his contract of employment by reason of redundancy; or

(vi) his employer ceasing to be our Company or a subsidiary or an associated company of our Company or under the control of our Company; or

(vii) a transfer of the business, or the part of the business, in which the option-holder works to a person who is neither our Company or any of its subsidiaries or associated companies nor under the control of our Company; or

(viii) if the Board determines in its absolute discretion that circumstances exist which mean that it is appropriate and consistent with the purpose of the Share Option Scheme to treat an option-holder whose options would otherwise lapse so that such options do not lapse but continue to subsist in accordance with (and subject to) the provisions of the Share Option Scheme,

then, any outstanding offer of an option which has not been accepted will lapse and the option-holder or his personal representatives (if appropriate) may exercise all his options (to the extent not already exercised) within a period of three months of the date of cessation of employment. Any option not exercised prior to the expiry of this period shall lapse.

If the Board determines that an option-holder who ceased to be an Eligible Employee in circumstances such that his options continue to subsist in accordance with (viii) above:

(aa) is guilty of any misconduct which would have justified the termination of his contract of employment for cause but which does not become known to our Company until after he has ceased employment with our Company or any of our subsidiaries or associated companies; or

(bb) is in breach of any material term of contract of employment (or other contract or agreement related to his contract of employment), without limitation, any confidentiality agreement or agreement containing non-competition or non-solicitation restrictions between him and our Company or any of our subsidiaries or associated companies; or

(cc) has disclosed trade secrets or confidential information of our Company or any of our subsidiaries or associated companies; or

(dd) has entered into competition with our Company or any of our subsidiaries or associated companies or breached any non-solicitation provisions in his contract of employment,

then it may, in its absolute discretion, determine that any unexercised options held by the option-holder shall immediately lapse upon the Board resolving to make such determination (whether or not the option-holder has been notified of the determination).

(p) Rights on cessation to be a customer, business or joint venture partner, consultant, etc.

In the event that any customer, business or joint venture partner, adviser, consultant, contractor, supplier, agent, customer or service provider ceases to be a customer, business or joint venture partner, adviser, consultant, contractor, supplier, agent, customer or service provider of our Company or any of our subsidiaries or associated companies, our Company shall, as soon as practicable thereafter, give notice to the relevant option-holder who as a result ceases to be an Eligible Person. Any outstanding offer of an option which has not been accepted will lapse on the date the option-holder ceases to be an Eligible Person. The option-holder (or his personal representative) may exercise all his options (to the extent not already exercised) within a period of three months of the date of the notification by the Board. Any option not exercised prior to the expiry of this period shall lapse.

In the event that an option-holder ceases to be an Eligible Person by reason of his ceasing to be a full-time employee of a customer, business or joint venture partner, adviser, consultant, contractor, supplier, agent, customer or service provider of our Company or any of our subsidiaries or associated companies (for any reason other than his death), any outstanding offer of an option which has not been accepted and all options (to the extent not already exercised) will lapse on the date the option-holder ceases to be an Eligible Person.

In the event that an option-holder who is a customer, business or joint venture partner, adviser, consultant, contractor, supplier, agent, customer or service provider of our Company or any of our subsidiaries or associated companies or a full-time employee of any customer, business or joint venture partner, adviser, consultant, contractor, supplier, agent, customer or service provider of our Company or any of our subsidiaries or associated companies ceases to be an Eligible Person by reason of his death, any outstanding offer of an option which has not been accepted will lapse and the personal representative of the option-holder may exercise all options of the option-holder (to the extent not already exercised) within a period of three months of the date of death of the option-holder. Any option not exercised prior to the expiry of this period shall lapse.

(q) Rights on ●

If as a result of any ● made to the holders of Shares, the Board becomes aware that the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of our Company has or will become vested in ●, any company controlled by ● or any person associated with or ● with ● ("**Change of Control**"), the Board will notify every option-holder of this within 14 days of becoming so aware or as soon as practicable after any legal or regulatory restriction on such disclosure no longer applies. Each option-holder will be entitled to exercise his options (to the extent not already exercised) during the one months starting on the later of (i) the date of the Board's notification to the option-holders; and (ii) the date on which the person making ● obtains control of the Company. All options not exercised before the end of such period will lapse.

(r) Rights on winding up

In the event a notice is given by our Company to its shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving the voluntarily winding up of our Company, our Company shall on the same date as or soon after it despatches such notice to its Shareholders give notice thereof to all option-holders and each option-holder (or his personal representative) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time no later than seven days prior to the proposed general meeting of our Company, and subject to the Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options not so exercised will lapse.

(s) Rights on company reconstructions

In the event of a compromise or arrangement, our Company shall give notice to all option-holders on the same date as it gives notice of the meeting to its shareholders or creditors to consider such a compromise or arrangement and each option-holder (or his personal representative) may at any time thereafter, but before such time as shall be notified by the Company, exercise all or any of his options (to the extent not already exercised), and subject to our Company receiving the exercise notice and the exercise price, our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options not so exercised will lapse.

(t) Lapse of option

An option will lapse on the earlier of:

(i) the expiry of the option period as determined by the Board; or

(ii) the date on which an option-holder is in breach of sub-paragraph (l); or

(iii) the expiry of the time provided for in the applicable rule where any of the circumstances provided in sub-paragraphs (m) to (s) above apply.

(u) Effect of alteration to capital

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, further rights issues of Shares, consolidation or subdivision of shares, or reduction of the share capital of the Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to the number of Shares, the subject matter of the option (insofar as it is unexercised) and/or the price at which the options are exercisable, as the auditors our Company or an independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable. Notice of any adjustments shall be given by our Company to an option-holder.

Any such adjustments shall be made on the basis that an option-holder shall have the same proportion of the issued share capital of our Company as that to which he was entitled prior to such adjustments. No such adjustments shall be made the effect of which would enable any Share to be issued at less than its nominal value or to increase the proportion of the issued share capital of our Company for which any option-holder would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustments.

The auditors of our Company or the independent financial adviser selected by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of ● and such applicable guidance and/or interpretation of ● from time to time issued by ●, except where such adjustment is made on a capitalization issue.

The capacity of the auditors or independent financial adviser is that of experts and not arbitrators and their certification shall be final and conclusive and binding on our Company and the option-holders in the absence of fraud or manifest error. The costs of the auditors or independent financial advisers shall be borne by our Company.

(v) Cancellation of options

Unless an option-holder agrees, the Board may only cancel an option (which has been granted but not yet exercised) if, at the election of the Board, either:

(i) the Company pays to the option-holder an amount equal to the fair market value of the option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors of our Company or an independent financial adviser appointed by the Board;

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(ii) the Board offers to grant to the option-holder replacement options (or options under any other share option scheme) or makes such arrangements as the option-holder may agree to compensate him for the loss of the option; or

(iii) the Board makes such arrangements as the option-holder may agree to compensate him for the cancellation of the option.

(w) Termination of the Share Option Scheme

The Share Option Scheme will expire automatically on the day immediately preceding the tenth anniversary of ●. The Board may terminate the Share Option Scheme at any time without shareholders' approval by resolving that no further options shall be granted under the Share Option Scheme and in such case, no new offers to grant options under the Share Option Scheme will be made and any options which have been granted but not yet exercised shall either (i) continue subject to the Share Option Scheme; or (ii) be cancelled in accordance with sub-paragraph (v).

(x) Alteration of the Share Option Scheme

The Board may amend any of the provisions of the Share Option Scheme (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights which have accrued to any option-holder at that date) except that amendments which are to the advantage of present or future option-holders in respect of matters contained in ● must be approved by our shareholders in general meeting.

Any amendments to the terms and conditions of the Share Option Scheme which are of a material nature or any amendments to the terms of any options granted may only be made with the approval of the shareholders of our Company save where the amendments take effect automatically under the existing terms of the Share Option Scheme.

Any amendments to the terms of options granted to an option-holder who is a substantial shareholder of our Company or an independent non-executive Director, or any of their respective associates must be approved by our shareholders in general meeting. The resolution to approve the amendment must be taken on a poll and any connected person of our Company must abstain from voting on the resolution to approve such amendment, except that such a connected person may vote against such resolution.

Any change to the authority of the Board in relation to any amendment of the rules of the Share Option Scheme may only be made with the approval of the shareholders of our Company in general meeting.

(y) Conditions of the Share Option Scheme

The adoption of the Share Option Scheme is conditional upon:

(i) ●; and

(ii) ●.

If the conditions above are not satisfied on or before the date following six months after the date the Share Option Scheme was conditionally adopted:

(aa) the Share Option Scheme shall forthwith determine;

(bb) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and

(cc) no person shall be entitled to any rights or benefits or be under any obligation under or in respect of the Share Option Scheme or any option.

Present status of the Share Option Scheme

As at the date of this document, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries were engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any of our subsidiaries, in either case that would have a material adverse effect on our results of operations or financial condition.

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3. ●

4. ●

5. ●

6. ●

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7. ●

8. ●

9. ●

10. ●

11. Miscellaneous

(a) Save as disclosed in this document:

(i) within the two years immediately preceding the date of this document, neither we nor any of our subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;

(ii) within the two years immediately preceding the date of this document, no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) within the two years immediately preceding the date of this document, no commission has been paid or payable (except commission to ●) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of our Company or any of our subsidiaries;

(iv) no founder, management or deferred shares nor any debentures of our Company or any of our subsidiaries have been issued or agreed to be issued;

(v) our Company has no outstanding convertible debt securities or debentures; and

(vi) there is no arrangement under which future dividends are waived or agreed to be waived.

(b) No company within our Group is presently listed on any stock exchange or traded on any trading system.

(c) ●

(d) Our Directors confirm that since December 31, 2010 (being the date on which the latest audited consolidated financial statements of the Group was made up), there has been no material adverse change in our financial or trading position or prospects.

(e) Our Directors confirm that there has not been any interruption in the business of our Company which may have or have had a material and adverse effect on the financial position of our Company in the twelve months immediately preceding the date of this document.