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CHINA FORESTRY HOLDINGS CO., LTD.

中國森林控股有限公司

(於開曼群島註冊成立的有限公司)

(股份代號：930)

公告

建議發行於二零一五年到期的擔保優先票據

本公司擬進行票據(即於二零一五年到期之擔保優先票據)之國際發售，並將於二零一零年十一月四日或前後開始針對亞洲、歐洲及美國的若干合資格機構投資者進行連串路演。有關本次發售，本公司將向有關投資者提供本集團若干近期企業及財務資料，包括自二零零九年十二月三日本公司完成首次公開發售及本公司寄發截至二零零九年十二月三十一日止年度之年報後部分過往可能未曾公開之最新風險因素、本公司業務之描述、財務狀況及經營業績之管理層討論及分析、近期發展情況簡介、關連方交易及債務資料。本公告附隨該等近期資料之節錄，且於向機構投資者發佈有關資料在大約相同時間於本公司網站www.chinaforestryholding.com可供查閱。

完成建議發行票據須視乎市況及投資者是否踴躍而定。聯席賬簿管理人兼聯席牽頭經辦人德意志銀行、渣打及瑞銀負責經辦建議發行票據。票據之若干條款及條件(包括本金總額、發售價及利率),將透過由德意志銀行、渣打及瑞銀所進行之累計投標過程釐定。票據之條款及條件一經落實,其中包括德意志銀行、渣打及瑞銀等各方將與本公司訂立購買協議。本公司現擬動用建議發行票據所得款項淨額主要作森林收購及將餘額作一般企業用途。本公司或會因應市況變化而調整其收購計劃,並因而重新調配所得款項用途。

票據已原則上獲批准於新加坡交易所上市。票據獲准於新加坡交易所上市,並不反映本公司或票據之價值。

由於截至本公告刊發日期並無就建議發行票據訂立具約束力之協議,建議發行票據未必會落實。有意投資者及本公司股東於買賣本公司證券時務請謹慎行事。倘簽署購買協議,本公司將就建議發行票據另行刊發公告。

建議發行票據

緒言

本公司擬進行票據(即於二零一五年到期之擔保優先票據)之國際發售,並將於二零一零年十一月四日或前後開始針對亞洲、歐洲及美國的若干合資格機構投資者進行連串路演。有關此次發售,本公司將向有關投資者提供本集團若干近期企業及財務資料,包括自二零零九年十二月三日本公司完成首次公開發售及本公司寄發截至二零零九年十二月三十一日止年度之年報後部分過往可能未曾公開之最新風險因素、本公司業務之描述、財務狀況及經營業績之管理層討論及分析、近期發展情況簡介、關連方交易及債務資料。本公告附隨該等近期資料之節錄,且向機構投資者發佈有關資料在大約相同時間於本公司網站www.chinaforestryholding.com可供查閱。

建議發行票據之完成須視乎市況及投資者是否踴躍而定。聯席牽頭經辦人及聯席賬簿管理人德意志銀行及渣打及瑞銀負責經辦建議發行票據。

票據僅會(i)根據144A規則獲豁免遵守證券法登記規定在美國境內向合資格機構買家發售，及(ii)根據證券法S規例向若干美國境外之非美籍人士發售。票據不會在香港向公眾發售，票據亦不會配售予本公司任何關連人士（定義見上市規則）。

票據的主要條款

以下為票據的主要擬定條款：

發行人：	本公司
發行日期：	二零一零年十一月
利率：	將於定價時釐定的固定百分比
擔保：	附屬公司擔保人將提供擔保
抵押品：	以本公司並非根據中國法律成立的附屬公司股份作股份抵押
契諾：	票據受多項重要限制及例外情況所限，並包含下列限制本公司及其附屬公司進行（其中包括）下列各項的能力的契諾：

- 承擔或擔保額外的債務及發行不合格或優先股；
- 就其股本宣派股息、購買或贖回股本；或進行若干投資或其他指定受限制付款，除若干特殊情況外；
- 發行或出售本公司若干附屬公司的股本；
- 擔保本公司若干附屬公司的債務；
- 出售資產；

－ 增設留置權；

－ 進行銷售及售後租回交易；

－ 訂立限制本公司附屬公司派息、轉讓資產或提供公司間貸款能力之協議；

－ 與股東或聯屬公司進行交易；及

－ 進行合併或收購。

票據的若干條款及條件(包括票據的本金總額、發售價及利率)尚待確定。本公司將於票據的條款及條件落實後隨即與票據最初購買方德意志銀行、渣打及瑞銀訂立購買協議，彼等其後向根據證券法144A規則獲豁免遵守證券法登記規定之若干合資格機構買家及將根據證券法S規例向若干美國境外人士提呈發售及出售票據。

由於並未就建議發行票據訂立具約束力的協議，故建議發行票據未必會落實。有意投資者及本公司股東於買賣本公司證券時務須審慎行事。

進行建議發行票據的理由

本集團為中國領先的森林管理及木材採伐公司。本集團專門從事森林的管理及可持續發展、上流木材採伐及銷售原木。本集團相信，以所擁有林權的覆蓋範圍而言，本集團為中國三大非國營森林營運商之一。本集團採伐及銷售軟木原木(包括中國杉木及雲南松)、以及硬木原木(包括山毛櫸及樺木)。本集團主要銷售原木予木材加工客戶木材主要用於中國的建築業、家具製造業及工業。目前，本集團絕大部分森林位於中國四川省及雲南省。本集團計劃繼續策略性收購雲南及中國西南部其他省份的優質森林資源。

本公司現擬動用建議發行票據所得款項淨額主要作森林收購及將餘額作一般企業用途。在動用該筆所得款項淨額前，本公司擬將該筆所得款項淨額投資於人民幣或非人民幣銀行存款、貨幣市場工具、存款證、定期存款或其他短期投資。本公司或會因應市況變化而調整其收購計劃，並因而重新調配所得款項用途。

董事認為，建議發行票據乃本公司以吸引條款取得即時資金之良機。董事(包括獨立非執行董事)認為，票據的條款屬公平合理，且符合本公司股東之整體利益。

上市

票據已原則上獲批准於新加坡交易所上市。票據獲准於新加坡交易所上市，並不反映本公司或票據之價值。本公司並無亦不會尋求票據於香港上市。

一般事項

由於截至本公告刊發日期並無就建議發行票據訂立具約束力之協議，建議發行票據未必會落實。有意投資者及本公司股東於買賣本公司證券時務請謹慎行事。

倘簽署購買協議，本公司將就建議發行票據另行刊發公告。

釋義

在本公告內，除文義另有所指外，下列詞彙之函義如下：

「董事會」	指	董事會
「德意志銀行」	指	德意志銀行新加坡分行，為有關發售及銷售票據之聯席賬簿管理人及聯席牽頭經辦人之一
「本公司」	指	中國森林控股有限公司，於開曼群島註冊成立的有限責任公司，其股份於聯交所主板上市
「董事」	指	本公司董事
「本集團」	指	本公司及其附屬公司
「香港」	指	中華人民共和國香港特別行政區
「上市規則」	指	香港聯合交易所有限公司證券上市規則

「票據」	指	本公司將發行於二零一五到期的擔保優先票據
「發售價」	指	票據將發售的最終價格
「中國」	指	中華人民共和國
「建議發行票據」	指	本公司建議發行票據
「購買協議」	指	擬由(其中包括)本公司、德意志銀行、渣打及瑞銀就建議發行票據訂立的協議；
「人民幣」	指	人民幣，中國法定貨幣
「證券法」	指	經修訂之一九三三年美國證券法
「新加坡交易所」	指	新加坡證券交易所有限公司；
「渣打」	指	渣打銀行，為有關發售及銷售票據之聯席賬簿管理人及聯席牽頭經辦人之一
「聯交所」	指	香港聯合交易所有限公司
「附屬公司擔保人」	指	為支付票據而提供擔保的本公司附屬公司，惟附屬公司擔保人不包括本公司根據中國法律成立的附屬公司
「瑞銀」	指	瑞士銀行香港分行，為有關發售及銷售票據之聯席賬簿管理人及聯席牽頭經辦人之一
「美國」	指	美利堅合眾國

承董事會命
中國森林控股有限公司
主席
李國昌

香港，二零一零年十一月三日

於本公告日期，本公司執行董事為李國昌先生及李寒春先生；本公司非執行董事為肖楓先生及李志同先生；而本公司獨立非執行董事為黃德尊先生、王偉英先生及劉璨先生。

中國森林控股有限公司的營運及財務數據摘要

（截至二零一零年十一月三日）

RISK FACTORS

An investment in the Notes is subject to the following risks that you should consider carefully, together with the other information contained herein, prior to investing in the Notes. The risks and uncertainties described below are not the only risks and uncertainties we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. Any of the following risks could materially and adversely affect our business, financial condition and results of operations. In that event, the price of the Notes could decline, and you may lose all or part of your investment in the Notes. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-Looking Statements."

Risks Related to our Business

Our profits may fluctuate significantly due to revaluation gains or losses on our plantation assets. However, changes in fair values of our plantation assets less costs to sell, which have made up a substantial portion of our profits in the past, are unrealized and do not reflect cash outflow or inflow.

Valuation gains or losses on our plantation assets have significantly impacted, and may continue to, significantly impact the results of our operations because a significant component of our profits (or losses) for a period consists of changes in fair value of such assets. Under IAS 41, we are required to assess the fair value of our plantation assets less costs to sell upon acquisition and to reassess such fair value at each balance sheet date. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we recognized unrealized gains in connection with changes in fair value of plantation assets less costs to sell of approximately RMB798.5 million, RMB6,024.4 million, RMB681.3 million (US$100.5 million) and RMB470.6 million (US$69.4 million), respectively. We incurred such unrealized gains primarily because we acquired new forests at relatively low acquisition costs during such periods and, to a lesser extent, because of the increased log value of the forests resulting from increased market prices for logs and increased forest value due to tree growth.

A significant portion of our profits in 2007, 2008, 2009 and the six months ended June 30, 2010 has been from the amounts recorded as unrealized gains. Therefore, profits shown on our financial statements may not represent positive cash from operations. Unless such plantation assets are disposed of at such revalued amounts, these unrealized gains do not generate actual cash inflow or outflow and do not reflect our liquidity positions.

Further, the fair value of our plantation assets is derived from many assumptions. We engaged CFK, an independent forestry asset valuer, to assess the fair value of our forests. As there was no active market for forests, CFK used a net present value approach based on the projected net cash flows expected to be derived from our plantation assets in the future, and a number of other key assumptions. These key assumptions include, among other things, the discount rate, market prices for each grade of logs produced, production costs, yield volume, natural tree growth, and the harvesting rate of our forests. These assumptions are subject to changes by us in the future and slight changes in these assumptions may result in a large increase or decrease in fair value.

Therefore, our results of operations may fluctuate significantly from period to period due to revaluation gains or losses calculated as of each balance sheet date, reflecting fluctuations in prevailing market conditions and the factors described above. There is no assurance that the fair value of our plantation assets less costs to sell will not decrease in the future. Any such decrease may also have a material adverse effect on our results of operations. You should also be aware that our profits are subject to changes in fair value arising from any subsequent revision in estimated forest data upon availability of more updated information and there is no assurance that such revision in estimated forest data will not have any material adverse impact on our results of operations.

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

Our experience and operations in the China forestry industry are limited. We began operating in the forestry industry in 2003, the same year when the PRC government announced "The Decision of the Central Committee of the Communist Party of China and the State Council on Accelerating the Development of Forestry" ("No. 9 Policy"), which sets out, among other things, a policy allowing private sector participation in China's forestry industry and development. Initially, we acquired forests and sold timber to customers primarily in Sichuan province. We began acquiring forests and operating in Yunnan in the first half of 2008. We have not operated our business in Guizhou and Chongqing before, although we plan to acquire forests in these provinces. Additionally, we have a limited operating history as a separate group. Prior to our corporate reorganization that we conducted in preparation for the listing of our shares on the Hong Kong Stock Exchange, all of our operations were conducted by Beijing Zhaolin, our predecessor entity. Our historical financial statements may not necessarily reflect our results of operations, financial position, and cash flows in the future.

Our results of operations are sensitive to log price fluctuations in the forestry industry.

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

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

In addition, changes in log prices can result in significant fluctuations in gain/(loss) from changes in fair value of plantation assets less costs to sell. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Fair value of plantation assets less costs to sell". Thus, slight changes in log prices may cause a disproportionally large change in our results of operations.

Substantially all of our forests are located in Sichuan and Yunnan and sales of our logs are concentrated in these two provinces. Adverse developments in these locations could have a material and disproportionate adverse impact on us.

Substantially all of our forests are currently located in Sichuan and Yunnan. Furthermore, our sales activities are focused primarily on selling logs to customers in these two locations. For the year ended December 31, 2009 and the six months ended June 30, 2010, approximately 16.3% and 9.6%, respectively, of our turnover of the corresponding periods came from our sale of logs harvested in Sichuan, and approximately 83.7% and 90.4% of our turnover of the respective periods came from the sale of logs harvested in Yunnan. As a result of our operations and revenue concentration in these two provinces, economic downturns, changes in governmental policies, unfavorable weather conditions, natural disasters and increased competition in either of these provinces could have a material and disproportionate impact on our revenues, operating results, business and prospects.

In particular, Sichuan and Yunnan are prone to earthquakes and both have suffered from large earthquakes in recent years. For example, on May 12, 2008, an earthquake of magnitude 8.0 on the Richter scale hit Sichuan, killing tens of thousands of people and causing severe physical damage to roads, buildings and infrastructure. We had a work stoppage of four days immediately after the earthquake.

We may have difficulty managing our recent and future growth and the associated increased scale of our operations.

We have experienced a period of significant growth in recent years and expect to continue to expand our business and operations. Our forest area has grown from 12,453 hectares as of December 31, 2007 to 171,780 hectares as of June 30, 2010, as a result of our substantial acquisitions. Our turnover grew from RMB160.3 million for 2007 to RMB793.7 million (US$117.0 million) for 2009.

Prior to 2008 nearly all of our logging and sales activities were conducted in Sichuan. Our expansion into Yunnan has been recent and rapid. In March 2008 and July 2008, we acquired approximately 59,333 hectares and 100,000 hectares of forests in Yunnan, respectively, and we only began harvesting operations in Yunnan in May of that year. For the year ended December 31, 2009 and the six months ended June 30, 2010, approximately 83.7% and 90.4%, respectively, of our turnover for the corresponding periods was generated in Yunnan. While our Yunnan forests are the majority of our assets, we have a limited history of operating in Yunnan. There is no assurance that we will operate successfully in Yunnan.

In addition, we plan to expand both in Yunnan and in additional provinces in Southwest China. For example, in Yunnan we entered into definitive acquisition agreements to acquire 53,333 hectares of forests in Ninglang county in February 2010 and have recently begun entering into definitive acquisition agreements to acquire forests in Dali county. We are also planning to make acquisitions in nearby provinces and have entered into letters of intent and framework agreements to purchase forest land in Chongqing municipality and Guizhou province. See "Recent Developments."

We are exposed to certain risks relating to our ability to successfully operate our plantations in new provinces such as Chongqing and Guizhou, primarily because we have little or no operating history in such provinces, and also because we do not have extensive experience interacting with local governments, business counterparties and original forests use rights holders in these provinces. In addition, our recent and future expansion plans may place a significant strain on our managerial, administrative, operational, and financial resources. In order to manage our growth and as our forest reserve expands, our operational systems will need to be improved and we will need to hire additional professional staff to meet the additional needs of our expanded operations. There is no assurance that our future operating systems and professional team can meet the demands of our operations. In the event that our operating systems and professional team fail to meet the demands of our operations, our business and results of our operations may be materially adversely affected.

We may face increased costs for new forest acquisitions and our inability to acquire sufficient immediately harvestable forests may affect our ability to meet demand and to grow our business.

We actively seek acquisitions of new forests to increase our tree supply, particularly new forests which have sufficiently mature trees and are immediately harvestable. There can be no assurance that we will be able to acquire sufficient immediately harvestable forests to keep up with demand. If we cannot do so, our business, financial condition and results of operation may be materially adversely affected.

In particular, as the number of entrants into the private forestry sector increases due to the privatization of the PRC 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 become increasingly sophisticated about the valuation and prices of their forests and may demand higher premiums for their forests. There is no assurance that we will be able to negotiate favourable pricing and other terms for our new forest acquisitions. Rising acquisition costs and intensifying competition for new forests may hamper our expansion plans and have an adverse impact on the profitability and results of our operations.

To grow our business we must acquire new forests, which requires significant capital commitments.

We expect to continue acquiring forests, which may require additional capital. We may also need additional capital due to changed business conditions or other future developments. If our current sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

We recognize significant capital commitments in connection with our forest acquisitions. As of June 30, 2010, we recognized total capital commitments outstanding, which are not reflected in our balance sheet, of RMB4.2 billion (US$619.3 million). We will continue to recognize significant additional capital commitments in connection with future forest acquisitions. Our immediate capital expenditures and investments will be primarily used for payment for the acquisition of new forests, including the Yunnan Ninglang forest. As of June 30, 2010, we had no debt outstanding, although we have entered into a non-binding letter of intent for a revolving credit facility of up to RMB1 billion from a commercial bank in China. However, depending on the availability of credit facilities, we may take on additional debt (in addition to the Notes) and our debt-to-equity ratio would increase.

Our ability to obtain external financing is subject to a number of uncertainties, including:

- our future financial condition, results of operations and cash flows and the trading price of our shares and the Notes;
- the state of global and China's credit markets and our credit worthiness;
- general market conditions for financing activities by companies in our industry; and
- economic, political and other conditions in Sichuan, Yunnan and generally in China.

We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all. Failure to obtain funding in a timely manner or on commercially acceptable terms, or at all, could materially impair our growth prospects and have a material adverse impact on our business, financial condition and results of operations.

Our framework agreements are typically non-binding and do not guarantee that we will be able to enter into definitive acquisition agreements to acquire forest resources.

We typically enter into framework agreements with local governments or government affiliated entities with respect to certain forest areas, which provide a framework for us to enter into definitive acquisition agreements with the many individual owners of the forests within such areas. These framework agreements, however, are typically non-binding and do not impose any obligation of any of party to sell us forest resources. We cannot assure you that we will enter into definitive acquisition agreements pursuant to such framework agreements or that if we do, such forest owners will agree to sell us their forest resources. Although these framework agreements reflect our acquisition intentions and strategies, you should not rely on these framework agreements as any guarantee that we will actually acquire such forests in the amounts and at the prices set forth in the framework agreements or at all.

Delays in issuance of forest use rights certificates may hamper our forests acquisitions and harvesting activities.

We must obtain various permits, approvals and forest use right certificates before we gain forest use rights to such forest resources. Delays in issuance of forest use rights certificates to us may pose difficulties and obstacles in our forests acquisitions and harvesting activities. We may not be able to recoup the purchase price and other expenses we already paid in connection with such acquisitions due to such delays. We strive to minimize any such delays but we may still encounter delays and no assurance can be given that we will be able to obtain such certificates in a timely manner or at all.

Our forests are subject to PRC environmental regulation, which can result in significant costs and potential liabilities.

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

PRC environmental laws and regulations have generally become more stringent in recent years and could become even more stringent in the future. We may be required to obtain certain licenses before we are permitted to occupy certain premises and/or carry out certain activities. They also protect endangered or threatened wildlife species which may live in our forests. Some of these environmental laws and regulations could impose significant costs, expenses, penalties and liabilities on us for violations of existing conditions attached to our licenses, whether or not we caused or knew about them. Violations of such laws and regulations may result in civil penalties (such as fines and recovery of costs), remediation expenses, potential injunctions and prohibition orders and criminal penalties. Some environmental statutes impose strict liability, rendering a person liable for environmental damage without regard to the person's negligence or fault.

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

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

We depend on certain major customers.

For each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our five largest customers accounted for approximately 85.3%, 44.8%, 59.1% and 62.2% of our total turnover, respectively, while our largest customer accounted for approximately 22.7%, 9.7%, 13.9% and 13.3% of our total turnover, respectively. If all or any of these major customers cease to place orders with us, our business and financial performance may be materially adversely affected.

During each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we had a total of 16, 19, 17 and 17 customers, respectively, which had purchased and received our logs during these respective periods. Based on our experience, we believe that our customer demand will increase, but the number of customers may decrease due to consolidation in the wood processing and paper industry. Our business and financial performance may be vulnerable to the sudden loss of one or more customers as a result of such consolidation.

Furthermore, in August 2010, we entered into a strategic partnership cooperation agreement with China National Light Industrial Products Import and Export Corp., pursuant to which we agreed to provide it with at least 1 million m^3 of logs between July 1, 2010 and June 30, 2015. In June 2010, we entered into a long-term sales framework arrangement with China Packaging Group Company Limited, pursuant to which we agreed to provide it with at least 1.5 million m^3 of logs over the next five years. We intend to enter into additional arrangements similar to these with large customers going forward, although we cannot guarantee you that we will successfully do so. These arrangements may increase our reliance on a few major customers. Further, if we cannot increase our capacity to harvest and sell more logs, we may not be able to service existing or new customers. This could result in the loss of customers and could make us more vulnerable to the credit risks of our large customers.

We may face increased operating costs and staff costs.

Our business may face increased operating costs as the forestry industry continues to develop in the PRC. Our operating expenses for logging activities consist of our costs of harvesting, such as labor costs, and costs associated with applying for logging permits, namely, the forest maintenance fees. We expect labor costs to rise as villagers who harvest our logs become more experienced and increase their wage demands. In addition, as we further expand our forests in Yunnan and elsewhere in the PRC, our use of professional harvesting teams (which are generally more expensive than local villagers we use for our Sichuan forests) would increase and our operating costs would therefore be expected to further increase accordingly.

Our cost of harvesting has experienced a steady upward trend during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 from RMB173 per m^3 for 2007 to RMB330 (US$49) per m^3 for the six months ended June 30, 2010. Forest maintenance fees are subject to periodic revisions by the local forest bureaus and the SFA and we expect these fees to increase as the industry develops. Our staff costs are also impacted by the new PRC Labor Contract Law (the "PRC Labor Contract Law"), which was enacted by the Standing Committee ("SCNPC") of the National People's Congress of the PRC ("NPC") on June 29, 2007 and became effective on January 1, 2008. The law establishes minimum wage, safety and educational requirements, all of which have increased since 2008, and are expected to continue to increase, our staff costs as well as our regulatory compliance costs. If the scale of our production grows as we believe it will, we may need to expand our sales beyond the local markets that we currently operate and make sales in. In addition, as we expand our operations to meet expected increases in demand we will have to harvest further into the center of our forests away from the edges where we are closer to our delivery points and customers. Sales beyond our local markets and further expansion to the center of our forests will both require us to expend significant resources in building infrastructure, transportation and delivery systems.

Increases in our operating expenses for logging activities, staff costs, infrastructure and transportation and delivery systems may have a material adverse effect on our business, financial condition and results of operations.

We have recorded net current liabilities in recent periods and may do so again in the future.

As of December 31, 2007 and 2009, we also had net current assets of approximately RMB20.4 million and RMB1,587.2 million (US$234.1 million), respectively. However, as of December 31, 2008, we had net current liabilities of approximately RMB169.4 million which related primarily to outstanding amounts payable for forest acquisitions. As of June 30, 2010, we had net current assets of approximately RMB1,559.4 million (US$230.0 million). There can be no assurance that we will not revert to a net current liabilities position again depending on the pace of our acquisitions of forests and how we fund such acquisitions. Any difficulties in funding net current liabilities could materially and adversely affect our forest acquisitions, operations and financial condition.

Our inability to obtain sufficient logging permits could materially adversely affect our business, financial condition and results of operations.

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

Under the PRC Forestry Law, the PRC government implements a quota system for the logging of forest trees. The quota system is based on the principle that annual harvesting should not exceed natural growth. In practice, such quotas implemented by the local forestry bureaus are generally based on their own estimate of the natural growth rate of the relevant forests. We understand that the local forestry bureaus in Sichuan and Yunnan generally set the maximum logging rate, defined as the amount logged each year as a percentage of the relevant total forest stock volume at the beginning of that year, at approximately 10%. Since our forest stock volume will change over time, they have not confirmed any absolute figure of our annual maximum logging amount.

Because the availability of logging permits is subject to the approval of the relevant local forestry bureau, there is no assurance that we will be able to continue obtaining logging permits, or that the logging amount given to us under the logging permits will be sufficient for our operations. Should we fail to obtain logging permits with a logging amount sufficient for our operations, we may breach our agreements with our customers, our revenues in the future may be reduced and our business, financial condition and results of operations may be materially and adversely affected.

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

Our business is categorized as a business encouraged by the PRC government. Under the new PRC Enterprise Income Tax Law (the "PRC EIT Law"), which was enacted by the NPC on March 16, 2007 and became effective on January 1, 2008 and its implementation regulations, the cultivation of forest trees and the gathering of forest products are exempt from enterprise income tax in China. In addition, pursuant to a tax notice, Cai Shui (2001) No. 171, we were not liable for income tax in the PRC during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 because our income was derived from the forestry business. However, there can be no assurance that the government will continue to offer such tax incentives to our business going forward should their policies change. Without this preferential tax treatment, our PRC subsidiaries would be subject to income tax at a rate of 25%.

Currently, forest products such as our logs benefit from a preferential 13% VAT rate which is applicable to non-small forestry enterprises with turnover that has reached a certain level, compared to the standard rate of 17%. During the year ended December 31, 2007, and prior to March 2008, Beijing Zhaolin, our predecessor entity, enjoyed a 4% VAT rate. The VAT rate of 4% enjoyed by Beijing Zhaolin was prescribed by the corresponding local tax authorities and evidenced by the written tax statement issued by the local tax authorities dated January 14, 2008 and January 15, 2008. The validity of this tax treatment has been confirmed by the local tax bureau as part of the dissolution procedures of Beijing Zhaolin, which was dissolved and deregistered on September 4, 2008. Kunming Ultra Big Forestry Resource Development Co., Ltd. ("Kunming Ultra Big") has been verbally advised by the local tax authority that it is only required to pay the VAT at 6% before January 1, 2009 and at 3% from January 1, 2009 and therefore it has been paying at such rates since April 1, 2008, the date when it commenced selling logs in its own name. A written confirmation issued by the local tax authorities dated July 3, 2009 confirmed that the VAT rate of Kunming Ultra Big from January 1, 2009 is 3%. However, as our PRC legal advisers have advised that Kunming Ultra Big should be subject to a 13% VAT rate, there is a risk that the tax authority may levy a 13% VAT rate on Kunming Ultra Big and require Kunming Ultra Big to compensate the taxes in arrears. Our PRC legal advisers have advised that the relevant tax authorities may, despite the aforementioned confirmation from the local tax authority, determine that the reduced VAT rate we have been paying is invalid and require us to pay back taxes owed to the applicable tax authorities based on a VAT rate of 13% within a prescribed period of time. In the interest of prudence, for the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, we included a provision in our financial statements for the difference between 13% and the VAT rate we actually paid or charged our customers.

Aside from our operating subsidiaries in the PRC, we also have subsidiaries in Hong Kong, the British Virgin Islands and the Cayman Islands. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, we are not subject to any income tax in these two jurisdictions. No provision for Hong Kong profits tax has been made, as we did not have an assessable profits subject to Hong Kong profits tax during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010.

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

Our revenues are solely dependent on the PRC market.

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

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

A significant proportion of our logs are processed by wood processing factories and ultimately used for construction. If China's construction industry slows down, especially in the key regions or cities in which our main end users are located, the demand for our logs may decrease, thereby having a material adverse effect on our revenues. The China real estate market has fluctuated significantly in recent years, which affects construction and is subject to governmental policy changes regarding domestic consumption in the real estate market. The China real estate market has been, and continues to be, affected by not just market fluctuations but by shifts in PRC government policy. For example, due to concerns about over-heating in the China real estate market, the PRC government adopts certain policies from time to time designed to slow the growth of the real estate market. A smaller proportion of our customers buy our logs for furniture manufacturing and paper manufacturing. We are similarly exposed to any declines in the furniture and paper industry.

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

The global capital and credit markets experienced extreme volatility and disruption in recent times, beginning in the fall of 2008. Concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the US mortgage market and a declining residential real estate market in the United States and elsewhere have contributed to unprecedented levels of market volatility and diminished expectations for the global economy and the capital and consumer markets in the future. Recently there have also been widely reported concerns regarding the ability of some countries in Europe to pay their national debt. This has put significant pressure on the bond markets as well as the overall economies of these and other countries. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment, have precipitated an economic slowdown and a possible prolonged global recession. These events led to a slowdown in the Chinese economy and could occur again. Should such events recur, the demand for our products may significantly decrease, thereby materially and adversely affecting our business, financial condition and results of operations.

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

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

It is our policy to maintain insurance coverage for all of our forests. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, the insurance premiums we paid amounted to approximately RMB13.3 million, RMB15.9 million, RMB16.1 million (US$2.4 million) and RMB6.0 million (US$0.9 million), respectively. Each of our insurance policies has a term ranging from one year to four years and, subject to certain conditions, is renewable upon expiration. We seek to purchase insurance coverage for every new forest once we complete its acquisition. However, there is a time gap between completion of our acquisition and the issuance of an insurance policy in respect of a newly acquired forest as the insurance company needs time to assess our newly acquired forest and the related risks. Any damage suffered by us before our purchase or renewal of insurance for any of our forests, or before such insurance becomes effective, or in excess of our limited insurance coverage amounts, or in respect of uninsured events, may materially and adversely impact our results of operations.

Some of the above-mentioned risks may cause personal injuries, consequential loss of profits or environmental damage. These may result in disruption of operations and the imposition of civil or criminal penalties upon us, which may not be covered by our insurance policies. Our insurance policy does not generally cover damage to our forests from disease, environmental pollution, and certain natural or man-made disasters (for example, torrential rain, typhoon, war, strikes and terrorist activities). We also do not carry business interruption insurance. As a result, there can be no assurance that our insurance coverage is sufficient to cover all losses relating to our properties and assets. If our insurance is insufficient to cover such losses or we were to suffer an uninsured loss, our business, financial condition and results of operations may be adversely affected.

We cannot assure you that our forests are free from environmental problems.

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

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

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

We are heavily dependent on key personnel.

We are heavily dependent on our executive officers and management for the success of our operations. Our ability to negotiate successfully with the forest rights owners for our forest rights and to acquire high quality forests depends on the skills, relationships, and reputation of our senior management, particularly our chairman, Mr. Li Kwok Cheong and our chief executive officer, Mr. Li Han Chun. We also rely heavily on the expertise and advice of our consultants, in particular their relationships with the CCPEF.

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

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

As of September 30, 2010, Mr. Li Kwok Cheong (along with Kingfly Capital) held approximately 52.6% interest in our company (the "Controlling Shareholders"). As a result, pursuant to our Articles of Association (the "Articles") and applicable laws and regulations, our Controlling Shareholders will be able to exercise significant influence over our company, including, any shareholder approvals for the election of our directors and, indirectly, the selection of our senior management, the amount of dividend payments, our annual budget, increases or decreases in our share capital, new securities issuances, mergers and acquisitions and any amendments to our Articles.

The interests of our Controlling Shareholders may not always coincide with our or your best interests and our Controlling Shareholders have the ability to exert significant influence over our actions and effect corporate transactions irrespective of the desires of the other shareholders or our directors.

In circumstances involving a conflict between the interests of our Controlling Shareholders and our interests, our Controlling Shareholders may exercise their ability to control us in a manner that would benefit our Controlling Shareholders, to our detriment.

Our forests may not grow in accordance with our expectations and may be affected by weather conditions and natural and man-made disasters outside of our control.

The success of our business depends in part upon the productivity of our existing and future forests. Growth in forests depend on a number of factors, many of which are beyond our control. These include, among other things, damage by fire, diseases, pests, environmental pollution, and other natural or man-made disasters, as well as silviculture practices, weather, climate, genetic factors, fertilizers used and soil conditions. Our ability to improve the growth speed of our forests will depend on the factors described above as well as our ability to improve planting materials, our ability to identify and grow suitable species of trees and our ability to improve our forest management practices. As a result, there can be no assurance that our forest will grow as we expect. Our future business, financial condition and results of operations may be adversely affected if our forests grow at a slower rate than we expect or stop growing.

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

We may undertake joint ventures, investments, acquisitions and other strategic alliances for to enter into downstream operations or for other reasons, and such undertakings may be unsuccessful and may have an adverse effect on our business.

We intend to continue growing our operations by entering into joint ventures, undertaking acquisitions or establishing other strategic alliances with downstream operators or for other reasons. These activities involve challenges and risks in negotiation, execution, valuation and integration, and closing of the transactions could be delayed or prevented by regulatory approval requirements or other conditions. Joint ventures and acquisitions that we may enter also could expose us to new operational, regulatory, market and geographical risks as well as risks associated with significant capital requirements, diversion of management and financial resources and non-performance by a counterparty. In addition, we may not be successful in finding suitable targets or partners on terms that are favorable to us, or at all.

Even if successfully negotiated and closed, expected synergies from a joint venture, acquisition or other strategic alliance may not materialize or may not advance our business strategy, may fall short of expected return-on-investment targets or may not prove successful or effective for our business. For example, although we may expand into downstream operations through partnering with downstream wood-processing entities, we have never performed downstream operations in the past and may not be successful in doing so.

Risks Related to Our Industry

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

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

We may also encounter unforeseeable delays in obtaining forest use right certificates from respective local governments. Any such delays may materially adversely affect our forest acquisitions and harvesting activities.

In addition to our forest use rights, all of our operations are subject to different national, provincial and local government policies and regulations. See "Government Regulation." Significant regulatory changes in China, including but not limited to, changes in applicable environmental legislation and regulations, tax policies, or any conditions attached to any of our certificates, permits or licenses may have a material adverse effect on our business, financial condition and results of operations.

We face competition from other companies in the forestry industry.

We face many local and overseas competitors who also supply timber to the domestic market. Our primary competitors operate either domestically or within the Asia Pacific region. In particular, we face competition from a host of small logging firms, some of which may not comply with environmental and other industry standards to the same extent as we do, resulting in their potentially lower operating costs. We also face competition from large state-owned enterprises and from overseas producers that export logs. Specifically, our competitors include other large privately owned forestry enterprises such as Sino-Forest Corporation.

Competition in our industry is influenced by factors including costs of new forest acquisitions, regulatory compliance, and forest insurance. Competition from overseas competitors is also influenced by fluctuations in exchange rates. For example, due in part to certain policy changes the Renminbi has appreciated over the past several years and many expect that it will continue to appreciate. If so, we will face greater competition from overseas competitors who export their logs into China.

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

The forestry industry faces competition from wood substitutes.

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

Risks Related to the PRC

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

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

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

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

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

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

As all of our business operations and assets are in China, our business, prospects, financial condition and results of operations may be adversely affected by political, economic and social developments in China, as well as by regional events affecting China, especially in the geographic areas where our forests are located. Such political, economic and social developments include, changes in government policies, political instability, expropriation, nullification of existing contracts due to change in law, labor activism, war, civil unrest, terrorism, and changes in interest rates, foreign exchange rates, taxation, environmental regulations and import and export duties and restrictions. Any such changes in China may have a material adverse effect on our business, financial condition and results of operation.

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

The value of the Renminbi against other foreign currencies is subject to change as a result of the PRC's policies and international economic and political developments. Effective from July 21, 2005, the Renminbi is no longer pegged solely to the US dollar. Instead, it is pegged against a basket of currencies, determined by the People's Bank of China, against which it can rise or fall by as much as 0.3% each day. However, the PRC government decided to repeg the Renminbi to the US dollar in response to the financial crisis in 2008. On June 19, 2010, China ended the peg of the Renminbi to the US dollar which allowed a greater flexibility of its exchange rate. There remains significant international pressure on the appreciation of the Renminbi against the US dollar. The exchange rate may become volatile. The Renminbi may be revalued further against the US dollar or other currencies or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollar or other currencies. Fluctuations in exchange rates may adversely affect the value, translated or converted into US dollars or Hong Kong dollars (which are pegged to the US dollar), of our net assets, earnings or any declared dividends. However, any unfavorable changes in the exchange rate may lead to an increase in our costs or a decline in sales or increase in our loan liabilities (if any), which could adversely affect our operating results. During the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, all our revenue and the majority of our costs incurred were denominated in Renminbi. As of December 31, 2007, we had no assets and liabilities which were denominated in a foreign currency. Our assets (not including cash and cash equivalents) denominated in foreign currency consisted of US$2,850 and HK$182,849 as of December 31, 2009, and US$26.2 million and HK$722,569 as of June 30, 2010. Our liabilities denominated in foreign currency consisted of US$7,688 and HK$1.2 million as of December 31, 2009, and HK$2.5 million as of June 30, 2010. Our cash in foreign currency consisted of US$74.1 million and HK$1.4 billion as of December 31, 2009, and US$382.7 million and HK$277.0 million as of June 30, 2010. At present, all of our sales are denominated in Renminbi and we believe our exposure to foreign exchange risks is minimal. We have not entered into any agreements to hedge our exchange rate exposure.

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

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC operating subsidiaries.

In utilizing the proceeds of this offering in the manner described in "Use of proceeds," as an offshore holding company of our PRC operating subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations. For example, loans by us to our subsidiaries in China, which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with the SAFE.

We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. We cannot assure you that we will be able to obtain these government approvals on a timely basis, if at all, with respect to future capital contributions by us to our subsidiaries. If we fail to receive such approvals, our ability to use the proceeds of this offering and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

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

According to the new PRC EIT Law which was enacted by NPC on March 16, 2007 and became effective on January 1, 2008, both domestic enterprises and enterprises with foreign investment will be subject to a uniform tax rate of 25% for China-sourced and overseas-sourced income. Under the Implementation Regulations of the new PRC EIT Law, the cultivation of forest trees and the gathering of forest products and the processing of forestry products are exempt from enterprise income tax in China and our forestry business falls within this category of business. Therefore our PRC subsidiary, namely, Kunming Ultra Big, should be qualified to be exempt from PRC income tax. In the event that no tax benefits or preferential tax treatments are granted to it, it will be subject to income tax at a rate of 25%.

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

We are incorporated under the laws of the Cayman Islands and hold interests in our PRC subsidiaries through BVI companies and Hong Kong companies. Under the new PRC EIT Law and the Implementation Regulations of the new PRC EIT Law, if we are deemed to be a "non-resident enterprise" without an office or premises in the PRC, a withholding tax at the rate of 10% may be applicable to any dividends paid to us, unless we are entitled to reduction or exemption of such tax, for example pursuant to relevant tax treaties. According to the tax treaties between the PRC and Hong Kong and the relevant PRC tax regulations, dividends paid by a foreign-invested enterprise in China to its shareholders in Hong Kong will be subject to a withholding tax at a rate of 5% if the Hong Kong company is deemed to be a "beneficial owner" that is generally engaged in substantial business activities and entitled to treaty benefits and directly holds a 25% or more interest in that PRC enterprise. Dividends derived from our PRC subsidiaries will become subject to withholding tax, which could materially adversely affect our profitability and cash flow.

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

As of June 30, 2010, we employed approximately 322 employees in the PRC. On June 29, 2007, the PRC government promulgated a new labor law, namely, the PRC Labor Contract Law, which became effective on January 1, 2008. Under the PRC Labor Contract Law, if we terminate our PRC employees' employment we are required to compensate them for an amount which is determined based on their length of service with us. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to effect these changes cost-effectively or in the manner we desire, which could negatively impact our results of operations.

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

Our business and operations in China are governed by the PRC legal system. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistencies. Some of the laws and regulations are still at a developing stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in China, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to us and investors in our Notes. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in China may be protracted and result in substantial costs and the diversion of resources and management attention.

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

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

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

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

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

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The following selected consolidated income statements (other than U.S. dollar amounts, which are provided for convenience only) for the years ended December 31, 2007, 2008, 2009, and the six months ended June 30, 2010 and our selected consolidated balance sheets as of December 31, 2007, 2008 and 2009 and as of June 30, 2010, have been derived from our consolidated financial statements. The selected consolidated income statement for the six months ended June 30, 2009, has been derived from an accountant's report which has been published. Our historical consolidated income statements and consolidated balance sheets as of and for the years ended December 31, 2007, 2008 and 2009 are prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board, including the International Accounting Standards (the "IAS") and their interpretations and have been audited by our independent auditors, KPMG. Our historical consolidated income statement for the six months ended June 30, 2010 and consolidated balance sheet as of June 30, 2010 have not been audited. Historical results are not necessarily indicative of results for any future period. For further information regarding the basis of presentation of our consolidated financial information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Basis of Presentation."

Consolidated Income Statements

	Years ended December 31				Six months ended June 30		
	2007	2008	2009	2009	2009	2010	2010
	RMB	RMB	RMB	US$	RMB	RMB	US$
	(in thousands)						
Turnover	160,318	544,948	793,693	117,038	373,248	494,257	72,883
Other operating income (1)	82	120	2,591	382	489	568	84
Amortization of insurance premium	(2,083)	(9,929)	(19,901)	(2,935)	(9,737)	(10,427)	(1,538)
Amortization of lease prepayments	(724)	(4,917)	(7,722)	(1,139)	(3,861)	(3,861)	(569)
Auditor's remuneration	(30)	(132)	(985)	(145)	(43)	(775)	(114)
Changes in fair value of plantation assets less costs to sell (2)							
- upon initial acquisition of the plantation assets	596,384	6,635,133	—	—	—	—	—
- changes during the year/period	202,097	(610,769)	681,339	100,470	518,868	470,617	69,397
Consultancy fees	(270)	(21,048)	(7,861)	(1,159)	(3,715)	(2,062)	(304)
Depreciation	(186)	(230)	(213)	(31)	(130)	(2,214)	(326)
Loss on disposal of fixed assets	—	—	—	—	—	(29)	(4)
Foreign exchange (loss)/gain	—	(3,054)	(3,168)	(467)	165	2,223	328
Operating expenses for logging activities (3)	(38,729)	(145,560)	(185,801)	(27,398)	(95,347)	(131,512)	(19,393)
Other operating expenses	(5,502)	(14,287)	(33,632)	(4,959)	(6,723)	(11,235)	(1,657)
Rental expenses of properties	(2,233)	(1,366)	(2,004)	(296)	(943)	(1,201)	(177)
Reversal of fair value of plantation assets upon logging and sales of the plantation assets (4)	(121,117)	(384,854)	(607,995)	(89,655)	(277,950)	(362,810)	(53,500)
Staff costs	(3,520)	(98,198)	(16,778)	(2,474)	(5,651)	(11,595)	(1,710)
Travelling expenses	(932)	(1,709)	(2,040)	(301)	(796)	(1,637)	(242)
Profit from operations	783,555	5,884,148	589,523	86,931	487,874	428,307	63,158
Net financing income/(costs)	174	(2,373)	(77,893)	(11,486)	(55,803)	988	146
Profit before taxation	783,729	5,881,775	511,630	75,445	432,071	429,295	63,304
Income tax	—	—	—	—	—	—	—
Profit for the year/period (5)	783,729	5,881,775	511,630	75,445	432,071	429,295	63,304
Attributable to:							
Equity shareholders of the Company	783,729	5,881,775	511,630	75,445	432,071	429,295	63,304

Other Financial Data

EBITDA (6)	784,465	5,889,295	597,458	88,101	491,865	434,382	64,053
Adjusted EBITDA (6)	107,101	341,396	527,282	77,753	250,782	324,381	47,832
Adjusted profit for the period(6)	106,365	242,265	438,286	64,630	191,153	321,488	47,407

Selected Financial Ratios

RMB (in millions except for percentages)	Years ended December 31 2007	2008	2009	Six months ended June 30 2009	2010
Adjusted EBITDA margin[7]	66.8%	62.6%	66.4%	67.2%	65.6%
Total debt	0.0	0.0	0.0	0.0	0.0
Total liabilities	2.3	632.5	174.7	460.0	210.3
Total equity	1,390.5	7,435.4	9,594.5	8,145.8	9,862.8
Total liabilities/total equity	0.2%	8.5%	1.8%	5.6%	2.1%
Current liabilities/current assets	10.0%	219.2%	9.9%	99.8%	11.9%

Notes:

(1) Other operating income represents the fair value of the saplings we receive from the PRC forestry bureaus, free of charge, for replanting purposes.

(2) Changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets represents the difference between the acquisition cost and the fair value of the acquired forest asset as of the date of acquisition.

Changes in fair value of plantation assets less costs to sell during the year/period represents the aggregate of (i) the difference between the fair value of the existing plantation assets as of the beginning and end of the period; and (ii) the difference between the fair value of the new plantation assets as of the second day of acquisition and value as of the end of the period.

(3) Operating expenses for logging activities consist of costs of harvesting and the fee required to be paid when a logging permit is applied for in the PRC, which is contributed to the forest maintenance fund maintained by the PRC government (the "forest maintenance fees").

(4) Reversal of fair value of plantation assets upon logging and sales of the plantation assets represents the fair value of plantation assets less costs to sell upon logging and which were subsequently sold.

(5) If changes in fair value of plantation assets less costs to sell were not taken into account, we would have incurred losses for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 in the amount of RMB14.8 million, RMB142.6 million, RMB169.7 million (US$25.0 million) and RMB41.3 million (US$6.1 million), respectively.

(6) We present EBITDA, Adjusted EBITDA and Adjusted profit for the period as supplemental measures of our operating performance. As these are measures that management uses to evaluate overall financial performance, we believe they provide useful information for our investors. In particular, we present EBITDA and Adjusted EBITDA because we believe that they are frequently used by securities analysts, investors and other interested parties in the evaluation of companies and in measuring the ability of issuers to meet debt service obligations and to generate cash from operations.

In evaluating EBITDA, Adjusted EBITDA and Adjusted profit for the period, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Additionally, you should be aware that these measures may vary among other companies including our competitors. Therefore, EBITDA and Adjusted EBITDA and Adjusted profit for the period as presented may not be comparable to similarly titled measures of other companies. You are encouraged to evaluate each adjustment and the reasons we consider them appropriate for supplemental analysis.

Our presentation of EBITDA, Adjusted EBITDA and Adjusted profit for the period should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. EBITDA, Adjusted EBITDA, and Adjusted profit for the period are not measurements of our financial performance under IFRS and should not be considered as alternatives to net profit, profit from operations or any other performance measures derived in accordance with IFRS or as alternatives to cash flow from operating activities as measures of our liquidity.

- *EBITDA is equal to profit for the year/period before income tax, financing income, financing expense, amortization of lease prepayments and depreciation. No adjustment has been made for amortization of insurance premium because these are typically amortized over one to two years.*
- *Adjusted EBITDA is equal to profit for the year/period before income tax, financing income, financing expense, foreign exchange gains and losses, other gains and losses, equity-settled share-based*

transaction, amortization of lease prepayments and depreciation, changes in fair value of plantation assets less cost to sell and reversal of fair value of plantation assets upon logging and sales of the plantation assets. No adjustment has been made for amortization of insurance premium because these are typically amortized over one to two years.

- *Adjusted profit for the period is equal to profit for the period before changes in fair value of plantation assets less cost to sell and reversal of fair value of plantation assets upon logging and sales of the plantation assets.*

The following table reconciles EBITDA and Adjusted EBITDA to our profit for the periods indicated:

	Years ended December 31				**Six months ended June 30**		
	2007	**2008**	**2009**	**2009**	**2009**	**2010**	**2010**
	RMB	**RMB**	**RMB**	**US$**	**RMB**	**RMB**	**US$**
	(in thousands)						
Profit for the year/period	**783,729**	**5,881,775**	**511,630**	**75,445**	**432,071**	**429,295**	**63,304**
Income tax	—	—	—	—	—	—	—
Financing income	(174)	(1,481)	(532)	(79)	(176)	(988)	(146)
Financing expense	—	3,854	78,425	11,565	55,979	—	—
Depreciation	186	230	213	31	130	2,214	326
Amortization of lease prepayments	724	4,917	7,722	1,139	3,861	3,861	569
EBITDA	**784,465**	**5,889,295**	**597,458**	**88,101**	**491,865**	**434,382**	**64,053**
Adjustments:							
Loss on disposal of fixed assets	—	—	—	—	—	29	4
Foreign exchange loss/ (gain)	—	3,054	3,168	467	(165)	(2,223)	(328)
Changes in fair value of plantation assets less costs to sell							
- upon initial acquisition of the plantation assets	(596,384)	(6,635,133)	—	—	—	—	—
- changes during the year/period	(202,097)	610,769	(681,339)	(100,470)	(518,868)	(470,617)	(69,397)
Reversal of fair value of plantation assets upon logging and sales of the plantation assets	121,117	384,854	607,995	89,655	277,950	362,810	53,500
Equity-settled share-based transactions	—	88,557	—	—	—	—	—
Adjusted EBITDA	**107,101**	**341,396**	**527,282**	**77,753**	**250,782**	**324,381**	**47,832**

The following table reconciles Adjusted profit for the period to our profit for the periods indicated:

	Years ended December 31				Six months ended June 30		
	2007	**2008**	**2009**	**2009**	**2009**	**2010**	**2010**
	RMB	**RMB**	**RMB**	**US$**	**RMB**	**RMB**	**US$**
				(in thousands)			
Profit for the year/period. .	**783,729**	**5,881,775**	**511,630**	**75,445**	**432,071**	**429,295**	**63,304**
Changes in fair value of plantation assets less costs to sell							
- upon initial acquisition of the plantation assets . . .	(596,384)	(6,635,133)	—	—	—	—	—
- changes during the year/period	(202,097)	610,769	(681,339)	(100,470)	(518,868)	(470,617)	(69,397)
Reversal of fair value of plantation assets upon logging and sales of the plantation assets . .	121,117	384,854	607,995	89,655	277,950	362,810	53,500
Adjusted profit for the year/period	**106,365**	**242,265**	**438,286**	**64,630**	**191,153**	**321,488**	**47,407**

(7) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by turnover.

Consolidated Balance Sheets

	As of December 31				As of June 30	
	2007	2008	2009	2009	2010	2010
	RMB	RMB	RMB	US$	RMB	US$
	(in thousands)					
Non-current assets						
Property, plant and equipment, net	443	6,951	22,122	3,262	23,813	3,511
Lease prepayments	31,468	225,827	218,104	32,162	214,243	31,592
Plantation assets	1,338,200	7,693,000	7,767,000	1,145,321	7,875,000	1,161,248
Prepayment for forest acquisition	—	—	—	—	190,338	28,067
Total non-current assets	1,370,111	7,925,778	8,007,226	1,180,745	8,303,394	1,224,418
Current assets						
Inventories	346	—	—	—	130	19
Other receivables	21,330	37,580	55,322	8,158	54,928	8,100
Other financial assets	—	—	—	—	179,996	26,542
Cash and cash equivalents	1,029	104,531	1,706,636	251,661	1,534,695	226,306
Total current assets	22,705	142,111	1,761,958	259,819	1,769,749	260,967
Current liabilities						
Other payables	(2,269)	(311,486)	(174,725)	(25,765)	(210,333)	(31,016)
Total current liabilities	(2,269)	(311,486)	(174,725)	(25,765)	(210,333)	(31,016)
Net current assets/(liabilities)	20,436	(169,375)	1,587,233	234,054	1,559,416	229,951
Total assets less current liabilities	1,390,547	7,756,403	9,594,459	1,414,799	9,862,810	1,454,369
Non-current liabilities						
Other payables	—	(321,053)	—	—	—	—
Total non-current liabilities	—	(321,053)	—	—	—	—
Net assets	1,390,547	7,435,350	9,594,459	1,414,799	9,862,810	1,454,369
Capital and reserves						
Share capital	10,000	232	20,797	3,067	20,797	3,067
Reserves	1,380,547	7,435,118	9,573,662	1,411,732	9,842,013	1,451,302
Total equity attributable to equity shareholders of the Company	1,390,547	7,435,350	9,594,459	1,414,799	9,862,810	1,454,369

RECENT DEVELOPMENTS

Subsequent to June 30, 2010, we have entered into various framework agreements, letters of intent and/or definitive acquisition agreements and have made further progress with respect to certain of our earlier proposed forest acquisitions as described below. Although our framework agreements generally are not binding on the parties (including ourselves) and the transfer of forest use rights under these agreements are subject to, among others, our execution of definitive acquisition agreements with forest land owners, they are indicative of our forest acquisition strategies and plans. We cannot assure you that we can complete the acquisition of all, or any, of the forest land covered by our framework agreements or that we will be able to obtain the necessary approvals and forest use rights with respect to forest land covered by these definitive acquisition agreements. For additional information regarding the various risks and uncertainties inherent in the acquisitions described above, see "Risk Factors" and "Forward-Looking Statements."

Youyang County, Chongqing Municipality

In October 2010, we entered into a non-binding framework agreement with a government entity in Youyang county, Chongqing municipality in connection with the acquisition of 66,667 hectares of harvestable forest land, and for an additional 33,333 hectares of undeveloped land suitable for cultivation. Under the framework agreement, the government entity will assist us to enter into definitive acquisition agreements with the owners of this forest and undeveloped land and to obtain land use rights. Our proposed investment amount under the framework agreement is US$100 million, US$70 million of which will be applied towards forest land acquisition and for operating capital in connection with the forest operations and US$30 million of which will be applied towards the development of downstream processing facilities. The US$70 million for the forest land acquisition is further divided into two payment phases, US$20 million to be paid within one year after the signing of the framework agreement and the remaining US$50 million to be paid within three years after the signing of the framework agreement. We target to enter into definitive acquisition agreements and complete acquisitions of the entire 100,000 hectares covered by the framework agreement during the first half of 2011.

Qiandongnan County, Guizhou Province

In March 2010, we entered into a letter of intent with Guizhou Jingping Changsheng Xinglv Forest Co., Ltd. ("Guizhou Jingping"), a third party forest management company, to acquire 133,333 hectares of forest land in Qiandongnan county, Guizhou province. The proposed acquisition price under the letter of intent is approximately RMB15,000 (US$2,200) per hectare for a total acquisition price of approximately RMB2 billion (US$294.9 million). We paid deposits totalling RMB220 million (US$32.4 million) from June to August 2010, which will be applied to the purchase price of the forest land under subsequent definitive acquisition agreements and which is refundable to us if we do not enter into any definitive acquisition agreements with respect to forest land covered by this letter of intent by March 2011. In September 2010, we entered into a definitive acquisition agreement with Guizhou Changsheng Green Resources Development Co., Ltd. ("Guizhou Changsheng"), another third party forest management company, to purchase 12,000 hectares of forest in Qiandongnan county, Guizhou province. The total purchase price under the agreement is RMB180 million (US$26.5 million) of which we paid 30%, or RMB54 million (US$8.0 million) in October 2010. An additional 30% of the purchase price under this definitive purchase agreement is payable within one week of obtaining the forest use right certificates for this forest land and the remaining 40% of the purchase price is payable within six months of obtaining the forest use right certificates.

In September 2010, we also entered into a non-binding framework agreement with a local government entity in Guizhou to acquire approximately 300,000 hectares of forest (including the 133,333 hectares under the letter of intent with Guizhou Jingping and the 12,000 hectares under the definitive acquisition agreement with Guizhou Changsheng), in Guizhou province. Under this framework agreement, the local government entity will assist us to enter into acquisition agreements with the owners of the forest land and to obtain forest use rights. We have begun to enter into individual definitive acquisition agreements with the forest land owners and will target to complete acquisitions of the full 300,000 hectares within the next few years. Under this framework agreement, our minimum investment amount is expected to be US$220 million.

Dali County, Yunnan Province

As of September 30, 2010, we had entered into definitive acquisition agreements to purchase 3,333 hectares in Dali. We are continuing to enter into definitive acquisition agreements and target to acquire a total of approximately 66,667 hectares of additional forest land in Dali county. We anticipate completing the acquisition of this additional forest land before the end of 2011.

Ninglang, Yunnan Province

In addition to the 53,333 hectares in Ninglang for which we entered into definitive acquisition agreements in February 2010 and are described in "Business — Forest Acquisitions — On-going Acquisitions", we intend to acquire an additional 66,667 hectares of forest land in Ninglang. We previously had entered into a non-binding framework agreement with a government entity in Ninglang with respect to this additional forest land in Ninglang, which has expired. We expect to begin entering into definitive acquisition agreements for this additional forest land in November 2010 and complete the acquisition of this additional 66,667 hectares by the end of 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our audited and unaudited consolidated financial statements and the related notes thereto. Our consolidated financial statements have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors".

Overview

We are a leading forest management and timber harvesting company in China. We focus on the management and sustainable development of forests, up-stream timber harvesting and the sale of logs. We believe we are one of the three largest non-state owned forest operators in China, based on coverage area of owned forest rights.

Currently, substantially all of our forests are located in Sichuan province and Yunnan province in China. We plan to continue to strategically acquire high quality forest resources in Yunnan and in other provinces in Southwest China. We harvest and sell softwood logs, including Chinese fir and Yunnan pine, and hardwood logs, including beech and birch. We sell our logs primarily to wood processing customers for use primarily in the construction furniture manufacturing and industrial sectors in China. For the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, our log sales volume was approximately 169,800 m^3, 520,407 m^3, 626,490 m^3 and 349,100 m^3, respectively.

We outsource harvesting activities to third parties, and our customers are responsible for the transportation of the harvested logs from our forests. We believe such arrangements reduce our operating costs by eliminating lease payments and transportation costs, and assist us to maximize the utilization of our resources.

We have grown rapidly since we began operating in 2003, the year in which the Chinese government announced a new policy allowing private sector participation in China's forestry industry and development. We have made significant new forest acquisitions in recent years, increasing our total forest area from 12,453 hectares as of December 31, 2007 to 171,780 hectares as of December 31, 2009 and June 30, 2010. For the years ended December 31, 2007, 2008 and 2009, and for the six months ended June 30, 2010, our turnover was approximately RMB160.3 million, RMB544.9 million, RMB793.7 million (US$117.0 million) and RMB494.3 million (US$72.9 million), respectively. For those same periods, our net profits were approximately RMB783.7 million, RMB5,881.8 million, RMB511.6 million (US$75.4 million) and RMB429.3 million (US$63.3 million), respectively.

The amounts and fluctuations in our net profits have been and will continue to be significantly affected by our recognition policy, which we have adopted pursuant to International Accounting Standard 41, *Agriculture*, or IAS 41, regarding changes in the fair values of plantation assets (which assets consist generally of the trees in our forests but does not include the underlying land). Under our policy, the fair value of plantation assets less costs to sell such plantation assets is reassessed at each balance sheet date and any change in such amount is recorded as an unrealized gain or loss on our consolidated income statements. In addition, our policy adopted pursuant to IAS 41 also requires us to record the reversal of fair value of plantation assets upon logging and sales of the plantation assets. Such unrealized gains or losses do not generate actual cash inflow or outflow. For the years ended December 31, 2007, 2008 and

2009, and for the six months ended June 30, 2010, our unrealized gains arising from changes in fair value of plantation assets less costs to sell were RMB798.5 million, RMB6,024.4 million, RMB681.3 million (US$100.5 million) and RMB470.6 million (US$69.4 million), respectively, accounting for approximately 101.9%, 102.4%, 133.2% and 109.6%, respectively, of our net profit for the corresponding periods. The reversal of fair value of plantation assets upon logging and sales of the plantation assets were RMB121.1 million, RMB384.9 million, RMB608.0 million (US$89.7 million) and RMB362.8 million (US$53.5 million) for those same periods, respectively.

Basis of Presentation

We consist primarily of various forestry-related businesses that were formed as part of our corporate reorganization conducted in preparation of our listing on the Hong Kong Stock Exchange in December 2009. Our historical consolidated financial statements include the results of operations of our company and subsidiaries for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 as if our current group structure had been in existence throughout those entire periods. Beijing Zhaolin was our predecessor member prior to our reorganization, pursuant to which the forest use rights to our Sichuan forests were transferred from Beijing Zhaolin to Kunming Ultra Big.

Mr. Li Kwok Cheong, our chairman and executive director, has had control over Beijing Zhaolin since its establishment. Because he controlled the business operations of Beijing Zhaolin and continues to control the companies comprising our business immediately after the reorganization, our financial information has been prepared as a reorganization of businesses under common control. Merger accounting has been applied in the preparation of our financial information. Accordingly, the relevant assets and liabilities of Beijing Zhaolin transferred to Kunming Ultra Big have been recognized at historical cost. All material intra-group transactions and balances have been eliminated on combination.

We have, in accordance with IFRS, prepared consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the years ended December 31, 2007, 2008, and 2009 and for the six months ended June 30, 2010, and consolidated balance sheets as of December 31, 2007, 2008, 2009 and as of June 30, 2010, combining all of our businesses for such periods and as of such dates for purposes of our consolidated financial statements.

Factors Affecting our Results of Operations

Market demand and log pricing

We are primarily an up-stream timber company. Our business focuses on managing our forestry resources and selling logs to our customers in the same or nearby provinces. As log sales are the sole contributor to our turnover, our results of operations depend on the market demand and supply conditions for logs and the prices we are able to obtain for our logs. Log prices fluctuate according to the supply and demand of logs on the open market, which is affected by the overall condition of the world and China's economy, among other factors. In recent years, log prices have generally been increasing due, in large part, to strong demand for raw materials in China and a tight supply environment for logs.

Any global economic slowdown or financial crisis, similar to the one that occurred beginning in late 2008 would likely have a significant impact on the wood, furniture and industrial sectors and the price of logs thereby affecting our results of operations. Moreover, because our operations and sales have been concentrated in two provinces, Sichuan and Yunnan, our financial results will be impacted by general economic and political conditions in such markets. We believe that there has been a shortage of wood in China in recent years and as a result China has been importing a significant amount of wood to satisfy its domestic market demand. Also, due to recent restrictions and tariffs imposed by the Russian government on their log exports, we believe that China's reliance on imported logs from Russia may decrease and China may have to rely more on domestic logs. We expect this may help to create a favorable market demand for logs in China.

Product mix

Our financial performance is affected by the average selling price of our logs, which is affected by our product mix in terms of the types and the sizes of the logs that we sell. The product mix of the logs that we sell is based primarily on customer demand for different types and sizes of logs and, to a lesser extent, on our forest resources and the logs that they are able to produce.

As the average prices of our hardwood beech and birch logs are higher than those of softwood Chinese fir and Yunnan pine logs, if we sell a higher percentage of beech and birch logs our overall average selling prices will be higher. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, substantially all of our turnover came from sales of Chinese fir, Yunnan pine, beech and birch logs. Sales of birch and Chinese fir accounted for most of our turnover during these periods. For example, for 2009, 45.1% was from the sales of birch and 20.0% was from the sales of Chinese fir. Those percentages were 44.6% and 13.3%, respectively, for the six months ended June 30, 2010. In addition, our financial performance is also affected by the size of the logs that we sell. We sell logs in a range of diameters although we typically sell logs of over 20 centimeters in diameter and primarily 2 meters and 4 meters in length. Larger diameter logs generally command higher prices and the prices for larger size logs has increased in recent years.

The amount of logs we are able to harvest

Our financial performance is affected by the volume of logs that we sell, which in turn depends on the amount of logs that we can harvest. The amount of logs that we harvest depends on several factors, including customer demand, our capacity and harvesting rates. We harvest logs in response to customer orders and generally do not carry any significant amounts of inventory, except ahead of and in preparation for the rainy season in certain of our forests. Our harvesting capacity also depends on additional factors such as the limits on harvesting rates implemented by the PRC government, the infrastructure supporting our harvesting operations, the total size of our forest resources and the size of our individual forest areas and the amount of time it takes us to begin harvesting our newly acquired forests.

Our overall harvesting rates were approximately 7.6%, 1.5%, 1.8% and 1.0% of our average forest stock volume as of the beginning and end of the period, for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. The low harvesting rates in 2008, 2009 and the first half of 2010 were primarily due to the substantial forest acquisitions in recent periods. When we acquire new forests, it takes time for us to develop and implement a harvesting plan and to obtain the necessary permits to begin harvesting. Whether and how greatly we can increase our harvesting rates will impact our financial performance.

Under the PRC Forestry Law, the PRC government implements a quota system for the logging of forest trees. The quota system is based on the principle that annual harvesting should not exceed natural growth. In practice, such quotas implemented by the local forestry bureaus are generally based on their own estimate of the natural growth rate of the relevant forests. We understand that the local forestry bureaus in Sichuan and Yunnan generally set the maximum logging rate, defined as the amount logged each year as a percentage of the relevant total forest stock volume at the beginning of that year, at approximately 10%. Although our overall harvesting rates have been low, the harvesting rates of some of our individual forest areas have come closer to the 10% maximum. If there were significant demand from customers located in or near forests where we are near the 10% maximum, we may have to incur significant additional costs to transport logs that we harvest in other forests to meet that customer demand or not sell to such customers. This would increase the prices of our logs and may make our logs less competitive.

Our capacity to harvest logs also depends on the infrastructure supporting the harvesting. We need quality roads and equipment to maximize the harvesting capacity of our forests. In the past, we have not had to spend significantly to build or improve the roads for operational or delivery purposes because we have been able to harvest logs closer to the edges of the forests where our customers picked up their log purchases. Going forward, we will have to harvest deeper into the centers of our forests, in particular if customer demand increases. This will require us to put in place infrastructure and equipment to allow our harvesting teams to operate in those locations and deliver the logs to our customers.

In addition, the amount of logs we can harvest is linked to the size of our forests. Since forest acquisitions may temporarily lower harvesting rates, the increased forest size generally enables us to harvest a greater volume of logs. As of December 31, 2007, we owned forest rights covering gross forest areas of approximately 12,453 hectares primarily in Sichuan and with a small amount in Anhui which we disposed of in 2008. As of December 31, 2008, we owned forest rights covering gross forest areas totaling 171,780 hectares in Sichuan and Yunnan. As of December 31, 2009 and June 30, 2010, we owned forest rights covering gross forest areas totaling 171,780 hectares in Sichuan and Yunnan. We plan to continue acquiring new forests, which we believe will increase our log production. However, the number of logs produced by us will depend on a variety of factors, including market demand and supply conditions, weather conditions affecting our forests and other factors that may be outside our control.

Change in fair value of plantation assets less costs to sell

A major factor affecting our profit for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 has been changes in fair value of plantation assets less costs to sell. This is because we have been actively acquiring new forests in recent periods and the appraised value of our forests has generally been increasing. For the years ended December 31, 2007 and 2008, changes in fair value of plantation assets upon initial acquisition of plantation assets alone were responsible for 76.1% and 112.8% of our profit for the year, respectively. We did not complete any forest acquisitions in 2009 and the first half of 2010 and did not record any changes in fair value of plantation assets upon initial acquisition of plantation assets for either of those periods. Because this factor has been a significant factor affecting our profit, our results of operations may experience dramatic increases or decreases due to these changes as a result of our acquisition activities or changes in the fair value of our plantation assets during the period.

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

CFK, an independent forestry asset valuer, carried out an assessment of the fair value of plantation assets less costs to sell as of December 31, 2007, 2008, 2009 and June 30, 2009 and 2010 in accordance with IAS 41 standards. For its valuation work, CFK visited our forests in Sichuan and Yunnan on various occasions in 2008, in March and August 2009 and in February 2010, including visits to a sample selection of our forests, our customers, and the local state forest administration office to discuss the area measurements and forest inventory.

In valuing our forests using the net present value approach, CFK estimated our forest inventory based on available survey information and its inspection of our forests, and made a number of key assumptions, including the discount rate, market prices for each grade of log produced, changes in production costs, natural tree growth, and the rate of harvesting and planting of trees at our forests, among others. Our costs to sell were determined by CFK based on costs to sell incurred for similar sales. We derive the amount of changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets by taking the difference between the acquisition cost and the value of the acquired forest asset as of the date of acquisition (which was based on the valuation assessed by CFK at the time of each forest acquisition). We derive the amount of changes in fair value of plantation assets less costs to sell during the year by taking the sum of (i) for plantation assets acquired in previous years the difference between the aggregate value of the existing plantation assets as of the beginning and the end of the year; and (ii) for plantation assets acquired in the current fiscal year, the difference between the aggregate value of the new plantation assets as of the second day of the acquisition and the end of the year. These values were based on the valuations assessed by CFK as of the relevant time. Any change in such assumptions would significantly affect the fair value of our forests, thereby significantly affecting our results of operations.

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

Our results of operations are significantly impacted by fluctuations in reversal of fair value of plantation assets upon logging and sales of the plantation assets, which represents the fair value of our logs on the harvest date that are subsequently sold, less costs to sell upon logging and sales. This reversal is impacted by the sales prices of our logs and the market demand and supply conditions for our logs. When our timber is logged and sold, the fair value of such timber as of the harvest date is charged to our consolidated income statement.

We determine the fair value of the logs at the harvest date by referencing the sale price of our logs. The two values are closely linked because (a) payment for our logs is made before delivery and logs are usually picked up by our customers within seven days from the delivery date, so there is a very short lag time between harvesting and customer pick-up; and (b) the sale prices of our logs have been relatively stable. Therefore, the amount of reversal of fair value of plantation assets upon logging and sales of the plantation assets is affected by the market price of our logs and our cost to sell our logs.

Critical Accounting Policies

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

Fair value of plantation assets less costs to sell

IAS 41 requires us to assess the fair value of our plantation assets less costs to sell. We engaged CFK, an independent forestry valuer, to determine the fair value of these assets. CFK used internal information to create a description of the species, area, age and volume of the forests at each valuation date and then performed an analysis using the capital asset pricing model to produce a valuation, using a discounted cash flow methodology. Costs to sell, in our case, refer primarily to costs of harvesting and forest maintenance fees. The fair value does not include the land value of the forests. When there is no active market, fair value is determined using a net present value approach with projected future net cash flows discounted according to current timber log prices.

Risk profile analysis for discount rate

Based on a risk profile analysis of our plantation assets, CFK applied a pre-tax discount rate of 9-13% to our forests, suggesting that our forests have a higher overall risk than other forests in the Northern and Southern hemisphere based on CFK's knowledge of transactions that took place from 2002 to 2008. The analysis also suggests that our forests are within the range of risk for PRC forests generally, based on CFK's knowledge of PRC forests, without referencing any specific transactional information. The analysis also indicates that the Sichuan forests have the lowest relative risk, the Yunnan Wenshan forest has the highest relative risk, and the Yunnan Luxi/Shuangjiang forest has a risk value within this range.

Assessment of risk is generally based upon the judgment of the forest valuer and is undertaken after all the quantifiable risk is accounted for when developing the valuation inputs. CFK considers that the information regarding quantifiable risk is sufficient to undertake a valuation but there is uncertainty particularly surrounding the yield. This uncertainty is not confined to our forests but is something that is encountered routinely in valuation and due diligence work.

Risk factors (yield, production costs, infrastructure, financial, environmental, fire)

With regard to the risk factors involved, CFK has concluded, based on a number of assumptions set out in their report attached, that:

- based on survey data available from the PRC government, the Sichuan forests have a higher yield risk when compared to the transactional evidence;
- Yunnan Luxi/Shuangjiang forest faces a higher degree of risk than the essentially single species forests in Sichuan. Yunnan Wenshan forest has a similar yield risk to Yunnan Luxi/Shuangjiang;
- our costs of production in Sichuan and Yunnan compare favorably with the forests of our competitor's in those regions;
- our forests have a higher infrastructure risk than those in the Northern or Southern hemispheres since the log markets in China are less developed and consist of larger numbers of smaller facilities;
- our forests generally produce a comparatively high margin. Stumpage (which is sales price less costs to sell) is more robust than other forests represented in the transactional evidence;
- our forests do not have a significantly greater environmental risk than PRC forests generally. The risk profile of the PRC forests is higher than that for the forests in CFK's transactional database; and

- the absence of a well developed fire detection and suppression organization is the basis for a fire risk rating that is moderately high but similar to the transactional evidence.

Other assumptions

In addition to the species, area, age and volume of our forests, CFK's valuation methodology assumed the discount rate, market prices for each grade of log produced, production costs, natural tree growth, harvesting rate, and other assumptions as follows:

- CFK believes the applied discount rates reflect an "open market sale", defined as "the amount, exclusive of value-added tax, for which the plantation tree crop would be expected to exchange between a willing buyer and a willing seller in an arms length transaction, after proper marketing, wherein the parties had each acted knowledgeably and without compulsion." CFK's analysis of actual Southern hemisphere sales has indicated that a corresponding discount rate would lie between 5.3% and 8.4%. After considering the risk profile of our forests, CFK determined that a discount rate exceeding the upper end of this range was more appropriate since our forest risk is positive compared to the transactional evidence;

- future cash flows are calculated from the current rotation of trees only, without taking into account the revenues or costs from re-establishment following harvest, or of land not yet planted;

- future cash flows do not take into account income tax and finance costs and are calculated on real terms;

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

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

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

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

As of June 30, 2010, our Sichuan forests, Yunnan Luxi/Shuangjiang forest and Yunnan Wenshan forest were valued at approximately RMB1,080 million (US$159.3 million), RMB4,299 million (US$633.9 million) and RMB2,496 million (US$368.1 million), respectively, by CFK in accordance with IAS 41. Log price has the most significant impact on valuation, followed by the volume of birch and beech, direct harvesting costs, annual management costs, and indirect harvesting costs (including general administration and harvesting and sales costs). Changes in discount rates, assumed log prices, and operation costs may also result in significant fluctuations in our gain/(loss) from changes in fair value of plantation assets less costs to sell.

Depreciation of property, plant and equipment

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

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

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventories represent timber harvested from plantation assets. The cost of timber transferred from plantation assets is its fair value less costs to sell at the date of harvest, determined in accordance with the accounting policy for plantation assets.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized, which is included in "reversal of fair value of plantation assets upon logging and sales of the plantation assets". The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories and recognized as an expense in the period in which the reversal occurs.

Revenue recognition

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

Description of Selected Income Statement Items

Turnover

Turnover, or revenues, represent sales value of goods supplied to customers less value added tax, returns and trade discounts. We generate revenues solely from the sale of logs. Revenues are recognized when the significant risks and rewards of ownership have been transferred to the buyer.

During the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, all of our revenues were derived from log sales within the PRC. For the year ended December 31, 2007, the majority of our revenues were derived from log sales to customers located within Sichuan, principally in Ya An City. We acquired substantial forest assets in Yunnan in 2008 and began commercial logging operations in Yunnan in May 2008. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, approximately 98.7%, 29.5%, 16.3% and 9.6%, respectively, of our turnover came from the sale of our logs in Sichuan. The remainder came from our sale of logs in Yunnan during those periods.

The following table shows our turnover and the percentage of total turnover by types of logs and tree species for the periods indicated:

	Years ended December 31							Six months ended June 30					
	2007		2008		2009			2009		2010			
	Turnover	% of Total Turnover	Turnover	% of Total Turnover	Turnover		% of Total Turnover	Turnover	% of Total Turnover	Turnover		% of Total Turnover
	RMB		RMB		RMB	US$		RMB		RMB	US$	
	(in thousands, except for %)												
Chinese Fir	154,930	96.6%	184,827	33.9%	158,910	23,433	20.0%	84,212	22.6%	65,980	9,729	13.3%
Yunnan Pine	5,388	3.4%	30,953	5.7%	34,728	5,121	4.4%	17,112	4.6%	23,906	3,525	4.8%
Total Softwood	160,318	100.0%	215,780	39.6%	193,638	28,554	24.4%	101,324	27.2%	89,886	13,254	18.1%
Birch	—	—	198,003	36.3%	357,739	52,752	45.1%	158,516	42.5%	220,194	32,470	44.6%
Beech (and other hardwood)	—	—	131,165	24.1%	242,316	35,732	30.5%	113,408	30.4%	184,177	27,159	37.3%
Total Hardwood	—	—	329,168	60.4%	600,055	88,484	75.6%	271,924	72.9%	404,371	59,629	81.9%
Total	160,318	100.0%	544,948	100.0%	793,693	117,038	100.0%	373,248	100.0%	494,257	72,883	100.0%

Our turnover is affected by our volume of log sales and our average log prices. Average selling prices for hardwood logs are generally higher than for softwood logs and therefore our total turnover is also affected by our product mix in terms of the types of logs that we sell.

The following table shows the volume, in cubic meters (m^3), of log sales from our tree species which we sold and the percentage of total volume sold during the periods indicated.

	Years ended December 31						**Six months ended June 30**			
	2007		**2008**		**2009**		**2009**		**2010**	
	Volume	**% of Total Volume**	**Volume**	**% of Total Volume**	**Volume**	**% of Total Volume**	**Volume**	**% of Total Volume**	**Volume**	**% of Total Volume**
	m^3		**m^3**		**m^3**		**m^3**		**m^3**	
Chinese Fir	164,100	96.6	208,207	40.0	186,300	29.7	98,700	30.7	77,500	22.2
Yunnan Pine	5,700	3.4	36,000	6.9	41,400	6.6	20,400	6.3	28,500	8.2
Total Softwood	169,800	100.0	244,207	46.9	227,700	36.3	119,100	37.0	106,000	30.4
Birch	—	—	161,200	31.0	228,500	36.5	114,500	35.6	126,000	36.1
Beech (and other hardwood)	—	—	115,000	22.1	170,290	27.2	88,330	27.4	117,100	33.5
Total Hardwood	—	—	276,200	53.1	398,790	63.7	202,830	63.0	243,100	69.6
Total	169,800	100.0	520,407	100.0	626,490	100.0	321,930	100.0	349,100	100.0

The following table shows our average log prices (excluding VAT) for the periods indicated.

	Years ended December 31			Six months ended June 30	
	2007	2008	2009	2009	2010
			(RMB/m^3)		
Chinese Fir	944	888	853	853	851
Yunnan Pine	945	860	839	839	839
Birch	NA	1,228	1,566	1,384	1,748
Beech (and other hardwood)	NA	1,141	1,423	1,284	1,573
Total average log price (excluding VAT)	944	1,047	1,267	1,159	1,416

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our average log prices (excluding VAT) were RMB944, RMB1,047, RMB1,267, RMB1,159 and RMB1,416 per m^3. The increase in our average log prices over the periods was primarily due to the increased proportion of sale of hardwood logs, which typically command higher value than softwood logs, over the periods.

Our turnover attributable to our five largest customers accounted for 85.3%, 44.8%, 59.1% and 62.2% of our turnover for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, respectively. Each of our five largest customers are wood-processing factories in Yunnan province.

We expect to continue to derive a substantial portion of our turnover from a small number of customers in the future. In an effort to strengthen our relationships and increase sales to large customers, we intend to to enter into long-term sales arrangements with certain large customers. For example, in August 2010, we entered into a strategic partnership cooperation agreement with China National Light Industrial Products Import and Export Corp., pursuant to which we agreed to provide it with at least 1 million m^3 of logs between July 1, 2010 and June 30, 2015. In June 2010, we entered into a long-term sales framework arrangement with China Packaging Group Company Limited, pursuant to which we agreed to provide it with at least 1.5 million m^3 of logs over the next five years.

Other Operating Income

Other operating income represents the fair value of tree saplings that are given to us by the forestry bureaus as part of the fees that we pay to them without any additional charge. As we are required to replant every tree we harvest using tree saplings, the number of these tree saplings increases in line with the amount we harvest. Other operating income includes income generated from trading of imported Russian logs, which we started in 2009.

Amortization of Insurance Premium

Amortization of insurance premium represents the amortization expenses of forest insurance premiums. We insure our forests against disasters, such as fire, flood and snow. The payment of these insurance premiums is made in advance and is amortized on a systematic basis over the insurance term, typically every one to two years. Our premium costs increase as our forest areas increase.

Amortization of lease prepayments

Amortization of lease prepayments is the amortization of our payments for land use rights in connection with our forest acquired. We typically prepay the entire land use rights upon acquisitions, which is amortized over the term of the land use rights.

Auditor's remuneration

Auditor's remuneration consists of the fees we pay to our auditors.

Changes in fair value of plantation assets less costs to sell

Changes in fair value of plantation assets consist of unrealized gains or losses that are attributable to the revaluation of our forests less costs to sell. IAS 41 on accounting for biological assets requires us to account for our forests based on the fair value of our plantation assets less costs to sell. At each balance sheet date, our plantation assets are valued at fair value less costs to sell. The aggregate gain or loss arising from the initial recognition of our forests and from the change in the fair value of plantation assets, less costs to sell, is recognized in our consolidated income statement as profit or loss. Any such profit or loss reflects only unrealized gain or loss on our plantation assets as of the relevant balance sheet date and does not generate actual cash inflow or outflow unless such plantation assets are disposed of at such revalued amounts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies — Fair value of plantation assets less costs to sell" for further information regarding the basis of determination of gain/(loss) from changes in fair value of plantation assets less costs to sell.

Changes in fair value of plantation assets less costs to sell upon initial acquisition of plantation assets

For the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010, we recognized unrealized gains of RMB596.4 million, RMB6,635.1 million, nil, and nil, respectively, due to the difference between the acquisition cost and the fair value of the acquired plantation assets as of the date of acquisition.

Except for 2009 and the first half of 2010, we recognized these substantial unrealized gains because we were able to acquire our forests at a relatively low price during such periods. For instance, the substantial increase of the recognized unrealized gains for the year ended December 31, 2008 is attributable to the acquisition of Yunnan Luxi/Shuangjiang forest in March 2008 and Yunnan Wenshan forest in July 2008 at favorably low prices. The lower the purchase price of our forests, the greater the difference between purchase price and the value, which is recognized in this line item as unrealized gains. We did not recognize any unrealized gains for 2009 and the first half of 2010 because we did not complete the acquisition of any plantation assets during this period. In February 2010 we signed definitive acquisition agreements to acquire an area of 53,333 hectares in Ninglang county in Yunnan. We have not completed this acquisition and have not received corresponding forest use rights. In addition we have not yet made any payment on this acquisition. We expect to complete this acquisition before the end of 2010 and, given that the purchase price is significantly less than the valuation provided by CFK, we expect to record non-cash gains for the changes in fair value of plantation assets less costs to sell upon initial acquisition of plantation assets in the second half of 2010 in connection with the Ninglang acquisition. The majority of our forests were previously owned by the forest farmers or the villages and they were willing to accept a purchase price lower than the prevailing market price for the reasons that: (i) certain fixed costs are incurred in operating a forest regardless of the size of forest; (ii) the boundaries of the forests are not clear, making the commercial exploitation of forests difficult; (iii) villagers who share the ownership of the forests are generally reluctant to share the responsibility of maintaining the forests, making the commercial exploitation of the forests less likely; and (iv) we enhance the living standard of forest farmers by inviting them to join us as forest workers and provide them stable and regular incomes when we acquire forests from them.

The fair value of our forests taken together are much larger than the sum of the individual small parcels we acquired. Individual small parcels of forests each have a lower fair value when valued on its own because of the inherent limitations of the owner to realize each small parcel's commercial potential as described above. The purchase price of the forests was determined through arm's length negotiations based on the valuation results of the independent forestry valuer that we engaged to issue a valuation report for each forest acquisition, and based on good faith negotiations with the seller. Going forward, we expect that our gains from changes in fair value of plantation assets less costs to sell upon initial acquisition will generally decrease from our historical levels, as we expect that the purchase price of forestry assets will increase due to, among others, increased competition in the forestry industry and log price increases.

Changes in fair value of plantation assets less costs to sell during the period

For the years ended December 31, 2007, 2009 and the six months ended June 30, 2010, we recognized unrealized gains of RMB202.1 million, RMB681.3 million (US$100.5 million), and RMB470.6 million (US$69.4 million), respectively, and for the year ended December 31, 2008, we recognized unrealized losses of RMB610.8 million, due to changes in fair value of plantation assets less costs to sell during such period.

Revision of yield estimates

Generally, we estimate yield either at the time of carrying out a valuation (for example, in connection with a forest acquisition), or in connection with our audit requirements. Since 2008, in addition to estimating yield as part of the pre-acquisition due diligence exercise carried out on the Yunnan Luxi/Shuangjiang forest and Yunnan Wenshan forest acquired in 2008, we also estimated yield on a semi-annual basis in connection with our audit in addition to reviewing other tree data, including forest stock volume, number of trees, stem length, stem height, tree species, tree age and tree spacing, etc.

No revision in yield estimate prior to 2008

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

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

Revision in yield estimate for 2008

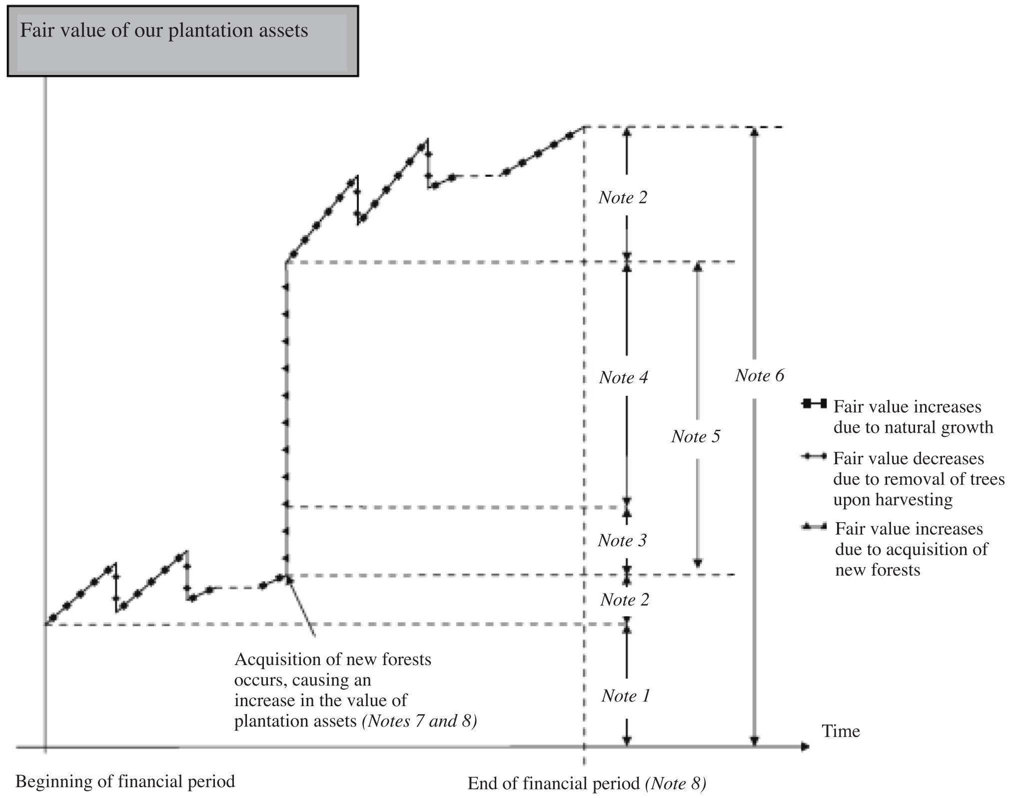
We acquired the Yunnan Luxi/Shuangjiang forest in March 2008 and the Yunnan Wenshan forest in July 2008. In the first half of 2008, we commenced harvesting activities in the Sichuan forests that we acquired in the second half of 2007 and in the Yunnan Luxi/Shuangjiang forest. Therefore, throughout 2008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

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

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

Illustration of fair value changes of plantation assets

For illustration purposes only, the following chart demonstrates the fair value changes of our plantation assets during a financial period assuming we acquire a new forest during the period and that the fair value of the plantation asset increases. No assurances can be given that the plantation asset will not decrease.



Notes:

1. *Represents the fair value of our plantation assets as of the beginning of the respective financial period.*
2. *Together, represents the changes in fair value of plantation assets (net of harvesting) less costs to sell during the year.*
3. *Represents the acquisition cost of new forests.*
4. *Represents the changes in fair value of plantation assets less costs to sell upon initial acquisition of the plantation assets.*
5. *Represents the fair value of the newly acquired forests as of the date of acquisition.*
6. *Represents the fair value of our plantation assets (including the newly acquired forests but not of harvesting) as of the end of the respective financial period.*
7. *An independent forestry asset valuer will be engaged to assess, using the net present value approach and in accordance with IAS 41, the fair value of the new forest as of the date of the acquisition.*
8. *An independent forestry asset valuer will be engaged to assess, using the net present value approach and in accordance with IAS 41, the fair value of our entire plantation assets as of the end of the respective financial period.*

Consultancy fees

Consultancy fees consist of the fees we pay to our consultants and intermediaries in connection with the identification, negotiation and acquisition of new forests.

Depreciation expenses

Depreciation expenses represent depreciation of our office equipment, leasehold improvement, motor vehicles, and furniture and fittings.

Foreign exchange loss

Foreign exchange loss represents the loss recognized when comparing our monetary assets and liabilities denominated in foreign currencies translated at the foreign exchange rates prevailing on the date of the transactions and at the foreign exchange rates on the date of our financial statements.

Operating expenses for logging activities

The following table shows our operating expenses for logging activities:

	Years ended December 31				Six months ended June 30		
	2007	2008	2009	2009	2009	2010	2010
	RMB	RMB	RMB	US$	RMB	RMB	US$
				(in thousands)			
Cost of harvesting	29,416	120,367	156,101	23,018	80,048	115,247	16,995
Forest maintenance fees . .	9,313	25,193	29,700	4,380	15,299	16,265	2,398

Our operating expenses for logging activities include primarily:

Cost of harvesting. Cost of harvesting includes the amounts we pay to villagers for their harvesting work at our forests in Sichuan and to professional harvesting teams for their harvesting work at our Yunnan forests. Generally, we expect that labor costs will rise as the villagers become more experienced in the work required by us and increase their wage expectations. Although labor remains relatively inexpensive in rural areas, our cost of harvesting has experienced a steady upward trend.

For the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2009 and 2010, the average costs of harvesting amounted to RMB173 per m^3, RMB231 per m^3, RMB249 per m^3, RMB249 per m^3 (US$37 per m^3) and RMB330 per m^3 (US$49 per m^3), respectively. We only commenced harvesting in Yunnan in May 2008. During the six months ended June 30, 2010, our cost of harvesting in Yunnan and Sichuan was on average RMB350 (US$52) per m^3 and RMB225 (US$33) per m^3, respectively. As we further expand our forests In Yunnan and other provinces, our use of professional harvesting teams (which are generally more expensive than local villagers we use for our Sichuan forests) is expected to increase and our operating expenses are therefore expected to further increase.

Costs associated with applying for logging permit (forest maintenance fees). When we apply for logging permits, we are required to pay a forest maintenance fee that is contributed to the forest maintenance fund maintained by the PRC government. The forest maintenance fees we paid to the local Sichuan government for 2007, 2008 and 2009 were RMB55 per m^3, RMB55 per m^3 and RMB55 (US$8) per m^3, respectively, and for 2008 and 2009 were RMB45 per m^3 and RMB45 (US$7) per m^3, respectively, in Yunnan. For the six months ended June 30, 2010, we paid RMB 55 (US$8) per m^3 in Sichuan and RMB45 (US$7) per m^3 in Yunnan.

These fees typically depend on the size of the forest area proposed for logging — the larger the forest area, the higher the fees. These fees are also subject to periodic revisions by the local and State forest authorities and we anticipate these fees will increase in the future as the forestry sector continues to develop and log prices continue to increase. These fees are determined by the local forestry bureaus and may vary by geographic location.

Other operating expenses

Our other operating expenses includes primarily entertainment expenses and also includes valuation expenses, education levy and urban education levy and donations (for example for earthquake relief).

Entertainment expenses were incurred primarily in connection with meals and entertainment with business partners. Valuation expenses arose in connection with valuations conducted before each acquisition and at each balance sheet date. Education levy and urban education levy were surcharges paid to the PRC government calculated at 3% and 7% of VAT paid and the increase was mainly due to the increase in turnover during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010. Donation of RMB3.0 million in 2008 was in connection with the Sichuan earthquake on May 12, 2008.

Rental expenses of properties

Rental expenses of properties are our office rental expenses for our corporate headquarters primarily in Beijing and Hong Kong.

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

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

The amount of reversal of fair value of plantation assets upon logging and sales of the plantation assets increases with the increase of logs harvested and sold and the log price. However, it decreases when forest maintenance fees or harvesting expenses increase.

Staff costs

Staff costs represent salaries, wages, and other benefits, contributions to defined contribution retirement schemes, and equity settled share-based payment expenses. Our only obligation for payment of pension benefits consists of our statutorily-mandated contributions to the defined contribution retirement schemes organized by the PRC municipal government authorities and Mandatory Provident Fund Scheme by the independent trustees under the Hong Kong Mandatory Provident Fund Scheme Ordinance. In 2008, we included equity settled share-based payment expenses in the amount of RMB88.6 million in our staff costs due to the transfer of shares from our chairman, Mr. Li Kwok Cheong, to our chief executive officer, Mr. Li Han Chun. This amount represents the difference of the fair value of the share transfer and the present value of consideration, which we recognized as staff costs according to our accounting policy.

Li Han Chun, our director and chief executive officer, joined us in 2004. In order to recognize the contribution of Li Han Chun to our company, our chairman transferred an aggregate of 3,200,000 shares at a cash consideration of US$32.0 million to Li Han Chun on March 31,

2008. The consideration of US$32.0 million was determined by reference to the transactions with certain independent foreign investors that occurred around the same time in March 2008. Li Han Chun made a payment of US$2.0 million to the Chairman on March 31, 2008. As a result of the transfer, Top Wisdom Overseas Holdings Limited, a company wholly owned by Li Han Chun, became one of our shareholders and is eligible for dividends and voting rights in respect of these shares. There are no terms and conditions in connection with any future services of Li Han Chun attached to the share transfer.

Following this share transfer, the above parties signed a supplemental agreement ("supplemental agreement") which provides for the settlement of the remaining US$30.0 million in cash in eight annual installments commencing on December 31, 2010 with no interest charge, but in return Li Han Chun is required to pledge the 1,066,667 acquired shares to Li Kwok Cheong. Pursuant to the supplemental agreement, Li Kwok Cheong has a full recourse loan from Li Han Chun in the event of a payment default. Given the terms and conditions set out in the share transfer arrangement and supplemental agreement, the benefits of RMB88.6 million in connection with the share transfer, which is the difference of the fair value of the shares transferred and the present value of consideration paid and payable by Li Han Chun, were accounted for as a share-based payment and recognized as staff costs on March 31, 2008.

The fair value of shares transferred is measured at the grant date taking into account the terms and conditions upon which shares are transferred. Where employees are entitled to the benefits immediately at the grant date, the total amount of benefits is recognized immediately at that date.

We did not incur any share-based payment expenses in 2009 and the six months ended June 30, 2010. We granted options to our employees to purchase a total of 42,750,000 shares in September 2010. As a result, we will incur a share-based compensation charge in the second half of 2010.

Travelling expenses

Travelling expenses are expenses that our employees incur in connection with routine forest inspections and forest management tasks, as well as expenses incurred in connection with visiting potential forest acquisition targets.

Net financing income (cost)

Our financing income (cost) represents interest income earned from bank deposits in our savings account at a commercial bank and deemed interest expenses. As the consideration for our forest acquisitions are typically not scheduled to be paid until some time in the future, typically one to two years after the acquisition date, we discount the costs using an effective annual interest rate determined at the time of the acquisition. We then state the payable at an amortized cost at each period end and the amortization for each period is recognized in our income statement as a deemed interest expense, payable to the sellers of the forests we acquired.

Income tax

During the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we were not subject to any income tax as there were no assessable profits subject to income taxes in the Cayman Islands, the BVI, Hong Kong or the PRC.

We currently do not pay any income tax in the PRC because our PRC subsidiaries either benefit from tax incentives in the PRC through forestry sector operation or have yet to generate any taxable profits. We are not impacted by the new PRC EIT Law because the business of planting forest trees is one of the categories of businesses encouraged by the PRC government. Under the Implementation Regulations of new PRC EIT Law, the cultivation of forest trees and the gathering of forest products are exempt from enterprise income tax in China.

According to the new PRC EIT Law which was enacted by NPC on March 16, 2007 and became effective on January 1, 2008, both domestic enterprises and enterprises with foreign investment will be subject to a uniform tax rate of 25% for China-sourced and overseas- sourced income. With respect to our PRC subsidiaries, Kunming Ultra Big has received benefits of income tax exemption for income derived from forestry business in 2008, 2009 and the six months ended June 30, 2010, and Chengdu Yishang, Manzhouli Yishang, Yunnan Zhaoneng, Shanghai Senjia and Guizhou Wosen do not yet own any forest land and do not yet generate any taxable profits. Without any tax benefits or preferential tax treatments all of our PRC subsidiaries would be subject to income tax at a rate of 25%.

Pursuant to the new PRC EIT Law and the Implementation Regulations of the new PRC EIT Law and other relevant sections, distribution of dividends by any PRC resident corporations to any corporate shareholder that is not a PRC resident is subject to income tax withholding at a rate of 10% to the extent such dividends are derived from the PRC unless any such non-resident corporation's place of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. We are required by the new PRC EIT Law to withhold income tax at the required rate from the distribution of dividends to any such corporate shareholder and pay the withheld amount directly to the PRC government when it becomes due.

Our PRC legal advisers have advised us that Kunming Ultra Big should be subject to a 13% VAT rate. However, Kunming Ultra Big has been verbally advised by the local tax authority that it is only required to pay the VAT at 6% before January 1, 2009 and at 3% on and after January 1, 2009 and therefore it has been paying at such rates since April 1, 2008, the date when it commenced selling logs in its own name. Our PRC legal advisers have advised us that the relevant tax authorities may nevertheless determine that the reduced VAT rate we have been paying is invalid and require us to pay back taxes owed to the applicable tax authorities based on a VAT rate of 13% within a prescribed period of time. We believe it is prudent to make a provision for the difference of 7% (before January 1, 2009) and 10% (on and after January 1, 2009) in our accounts, and accordingly such provision has been included in our consolidated financial statements for the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010. Should any of the PRC tax incentives which we expect to benefit from become unavailable, or revised by the PRC tax authorities, our results of operations may be materially and adversely affected. Without any tax benefits or preferential tax treatments, our current and future PRC subsidiaries could be subject to income tax at a rate of 25% and a VAT of up to 13%.

Profit for the year attributable to equity shareholders of our company

Profit for the year attributable to equity holders of our company represents our total equity, which is the portion of our profit or loss attributable to the equity interests that we own, directly or indirectly through subsidiaries.

Comparison of results of operations

Comparison of the six months ended June 30, 2009 and 2010

Turnover

Our turnover, or revenues, increased by RMB121.1 million, or 32.4%, from RMB373.2 million for the six months ended June 30, 2009 to RMB494.3 million (US$72.9 million) for the six months ended June 30, 2010. The increase in revenues in the first half of 2010 was primarily due to a significant increase in the volume of our logs sold during the period, which was mainly attributable to increased harvesting from our Yunnan forests. We sold 349,100 m^3 of logs in the six months ended June 30, 2010, an approximately 8.4% increase from the 321,930 m^3 of logs sold in the six months ended June 30, 2009. In addition, the increase in revenues was due to an increase in the average selling price of our logs during this period. The average log price of wood (excluding VAT) increased by approximately RMB257 per m^3 or 22.2%, from RMB1,159 for the six months ended June 30, 2009 to RMB1,416 (US$209) for the six months ended June 30, 2010. The increase in average log price was mainly due to our increased sales of hardwood logs in the six months ended June 30, 2010, which command higher prices than softwood logs.

Other operating income

Other operating income increased by approximately RMB0.1 million from RMB0.5 million for the six months ended June 30, 2009 to RMB0.6 million (US$84,000) for the six months ended June 30, 2010, primarily due to the gain from trading of imported Russian timber amounting to approximately RMB0.3 million (US$44,000), which we did not have in the six months ended June 30, 2009.

Amortization of insurance premium

Amortization of insurance premium increased by RMB0.7 million, or approximately 7.2%, from RMB9.7 million for the six months ended June 30, 2009 to RMB10.4 million (US$1.5 million) for the six months ended June 30, 2010, primarily due to the increase in our forest area that was covered by forest insurance resulting in a larger total amount of insurance premiums.

Amortization of lease prepayments

Amortization of lease prepayments stayed at the same level of RMB3.9 million for the six months ended June 30, 2009 and 2010.

Auditor's remuneration

Auditor's remuneration increased by RMB0.7 million, or from RMB43,000 for the six months ended June 30, 2009 to RMB0.8 million (US$0.1 million) for the six months ended June 30, 2010, primarily due to the professional fees incurred in relation to audit work performed by our auditors during the first half of 2010 in connection with our 2009 financial statements. In the first half of 2009, the majority of the professional fees for the audit work performed by our auditors in connection with the first half of 2009 financial statements and the 2006 to 2008 financial statements were not included in this auditor's remuneration line item because they were capitalized as expenses in connection with our initial public offering and listing on the Hong Kong Stock Exchange in December 2009.

Changes in fair value of plantation assets less costs to sell

Changes in fair value of plantation assets less costs to sell decreased by RMB48.3 million, or approximately 9.3%, from RMB518.9 million for the six months ended June 30, 2009, to RMB470.6 million (US$69.4 million) for the six months ended June 30, 2010.

Consultancy fees

Consultancy fees decreased by RMB1.6 million, or approximately 43.2% from RMB3.7 million for the six months ended June 30, 2009 to RMB2.1 million (US$0.3 million) for the six months ended June 30, 2010. The decrease in consultancy fees for the six months ended June 30, 2010 was primarily due to the decrease in forest acquisition activities, in which we typically engage consultants to perform forest evaluations.

Depreciation

Depreciation expenses increased by RMB2.1 million, from RMB129,629 for the six months ended June 30, 2009 to RMB2.2 million (US$0.3 million) for the six months ended June 30, 2010, due primarily to the increase in fixed assets with respect to our corporate offices.

Foreign exchange gain

We had a foreign exchange gain for the six months ended June 30, 2010 as a result of appreciation in the value of H.K. dollars against U.S. dollars. We recognized an increased foreign exchange gain of RMB2.0 million, from RMB0.2 million for the six months ended June 30 2009, to RMB2.2 million (US$0.3 million) for the six months ended June 30, 2010.

Operating expenses for logging activities

Operating expenses for logging activities increased by RMB36.2 million, or approximately 38.0% from RMB95.3 million for the six months ended June 30, 2009 to RMB131.5 million (US$19.4 million) for the six months ended June 30, 2010. The increases were due to increases in both our cost of harvesting and forest maintenance fees.

The cost of harvesting increased by RMB35.2 million, or approximately 44.0% from RMB80.0 million for the six months ended June 30, 2009 to RMB115.2 million (US$17.0 million) for the six months ended June 30, 2010, mainly due to a combination of (i) an increase in sale volume from 321,930 m^3 for the six months ended June 30, 2009 to 349,100 m^3 for the six months ended June 30, 2010 and (ii) an increase in harvesting cost per unit of approximately 32.5% from an average of RMB249 per m^3 for the six months ended June 30, 2009 to an average of RMB330 (US$49) per m^3 for the six months ended June 30, 2010.

Forest maintenance fees increased by RMB1.0 million, or approximately 6.5% from RMB15.3 million for the six months ended June 30, 2009 to RMB16.3 million (US$2.4 million) for the six months ended June 30, 2010. Our overall forest maintenance fees were higher in 2010 mainly due to the increase in amount of logs harvested by us.

Other operating expenses

Other operating expenses increased by approximately 67.2% from RMB6.7 million for the period ended June 30, 2009 to RMB11.2 million (US$1.7 million) for the six months period ended June 30, 2010, mainly due to the increase in education levy and urban education levy. The education levy and urban education levy were surcharges paid to the PRC government calculated at 3% and 7% of VAT paid and the increase was mainly due to the increase in turnover.

Rental expenses of properties

Rental expenses of properties increased by approximately RMB0.3 million, or approximately 33.3%, from approximately RMB0.9 million for the six months ended June 30, 2009 to approximately RMB1.2 million (US$0.2 million) for the six months ended June 30, 2010, primarily due to the removal of certain corporate offices in Chengdu, Sichuan and the relocation of some of the offices to less expensive premises.

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

Reversal of fair value of plantation assets upon logging and sales of the plantation assets increased by RMB84.8 million or approximately 30.5% from RMB278.0 million for the six months ended June 30, 2009 to RMB362.8 million (US$53.5 million) for the six months ended June 30, 2010, primarily due to the increase in sales volume and the increase in average selling price.

Staff costs

Staff costs increased by RMB5.9 million, or approximately 103.5%, from RMB5.7 million for the six months ended June 30, 2009 to RMB11.6 million (US$1.7 million) for the six months ended June 30, 2010, mainly due to the increases in the base salaries of our directors and senior management since December 2009.

Travelling expenses

Travelling expenses increased by RMB0.8 million, or approximately 100%, from RMB0.8 million for the six months ended June 30, 2009 to RMB1.6 million (US$0.2 million) for the six months ended June 30, 2010, primarily due to increased forest management activity.

Profit from operations

As a result of the foregoing, our profits from operations decreased by RMB59.6 million or approximately 12.2% from RMB487.9 million for the six months ended June 30, 2009 to RMB428.3 million (US$63.2 million) for the six months ended June 30, 2010.

Net financing income (cost)

We incurred net financing cost of RMB55.8 million for the six months period ended June 30, 2009 and generated net financing income of RMB1.0 million (US$0.1 million) for the six months period ended June 30, 2010. In the first half of 2009, we recorded deemed interest expense in connection with our Yunnan forest acquisitions for which we were still continuing to make payments. We did have forest acquisitions in the first half of 2010 and thus did not have any deemed interest expense in such period, and generated some financing income in connection with bank deposits at a commercial bank.

Profit for the year

As a result of the foregoing, profit for the six month period decreased by approximately RMB2.8 million, or 0.6%, to RMB429.3 million (US$63.3 million) for the six months ended June 30, 2010 from RMB432.1 million for the six months ended June 30, 2009.

Comparison of the years ended December 31, 2008 and 2009

Turnover

Our turnover, or revenues, increased by approximately RMB248.8 million or 45.7%, from RMB544.9 million for the year ended December 31, 2008 to RMB793.7 million (US$117.0 million) for the year ended December 31, 2009. The increase in revenues in 2009 was primarily due to a significant increase in the volume of our logs sold during this period. We sold 626,490

m^3 of logs in the year ended December 31, 2009, an approximately 20.4% increase from the 520,407 m^3 of logs sold in the year ended December 31, 2008. The increase in volume of our logs sold was mainly attributable to increased harvesting from our Yunnan forests. The positive effects of the increased volume of our logs sold to our turnover for the year ended December 31, 2009 were enhanced by the increase in our average log prices during the same period. The average log price in RMB by m^3 of wood at roadside sales increased by approximately RMB220 or 21%, from RMB1,047 for the year ended December 31, 2008 to RMB1,267 (US$187) for the year ended December 31, 2009. The increase in average log price was mainly due to our increased sales of hardwood logs, which command higher prices than softwood logs.

Other operating income

Other operating income increased by approximately RMB2.5 million from RMB0.1 million for the year ended December 31, 2008 to RMB2.6 million (US$0.4 million) for the year ended December 31, 2009, primarily due to the gain from trading of imported Russian timber, amounting to approximately RMB1.9 million (US$0.3 million) and the increased number of tree saplings received from the forestry bureaus for replanting purposes because of increased harvesting.

Amortization of insurance premium

Amortization of insurance premium increased by approximately RMB10.0 million, or 101.0%, from RMB9.9 million for the year ended December 31, 2008 to RMB19.9 million (US$2.9 million) for the year ended December 31, 2009, primarily due to an increase in forest area and the full-year amortization of insurance premiums for the forests in Yunnan that we acquired in March and July 2008.

Amortization of lease prepayments

Amortization of lease prepayments increased by approximately RMB2.8 million, or 57.1%, from RMB4.9 million for the year ended December 31, 2008 to RMB7.7 million (US$1.1 million) for the year ended December 31, 2009, primarily due to the full-year amortization of land lease prepayments for the forests in Yunnan that we acquired in March and July 2008.

Changes in fair value of plantation assets less costs to sell

Changes in fair value of plantation assets less costs to sell decreased by approximately RMB5,343.1 million, or approximately 88.7%, from RMB6,024.4 million for the year ended December 31, 2008, to RMB681.3 million (US$100.5 million) for the year ended December 31, 2009. The significant decrease in change in fair value of plantation assets less cost to sell is mainly attributable to the lack of fair value change upon initial acquisition of plantation assets due to the absence of any forest acquisitions in 2009 as compared to an adjustment of RMB6,635.1 million in 2008 in connection with our forest acquisitions in Yunnan, partially offset by the increase of change in fair value of plantation assets less costs to sell on the existing plantation assets during 2009 of RMB681.4 million, as compared to the decrease of such value during 2008 of RMB610.8 million.

Consultancy fees

Consultancy fees decreased by approximately RMB13.1 million, or 62.4% from RMB21.0 million for the year ended December 31, 2008 to RMB7.9 million (US$1.2 million) for the year ended December 31, 2009. The decrease in consultancy fees in 2009 was primarily due to the lack of forest acquisition activities.

Foreign exchange loss

Although none of our sales were denominated in a currency other than Renminbi, we had a foreign exchange loss for 2009 as a result of the US$41 million investment from Carlyle Asia Growth Partners III, L.P. and CAGP III Coinvestment, L.P. (the "Carlyle Funds"). Because such investment amount was made in US dollars, and because of the decline of the US dollar against the Renminbi between the date the cash was deposited in our bank account and December 31, 2009, we recognized a slightly increased foreign exchange loss of approximately RMB0.1 million, or 3.2% from RMB3.1 million for 2008, to RMB3.2 million (US$0.5 million) for 2009.

Operating expenses for logging activities

Operating expenses for logging activities increased by approximately RMB40.2 million, or 27.6% from RMB145.6 million for the year ended December 31, 2008 to RMB185.8 million (US$27.4 million) for the year ended December 31, 2009. The increases were due to increases in both our cost of harvesting and forest maintenance fees.

The cost of harvesting increased by RMB35.7 million, or approximately 29.7% from RMB120.4 million for the year ended December 31, 2008 to RMB156.1 million (US$23.0 million) for the year ended December 31, 2009, mainly due to a combination of (i) increase in sale volume from 520,407 m^3 for the year ended December 31, 2008 to 626,490 m^3 for the year ended December 31, 2009 and (ii) an increase in harvesting fee per unit from an average of RMB231 per m^3 for the year ended December 31, 2008 to an average of RMB249 (US$37) per m^3 for the year ended December 31, 2009, because we harvested relatively more logs from our Yunan forest in 2009 and the costs of professional harvesting companies in Yunnan is generally more expensive than in Sichuan, resulting in increased costs in 2009.

Forest maintenance fees increased by approximately RMB4.5 million, or 17.9% from RMB25.2 million for the year ended December 31, 2008 to RMB29.7 million (US$4.4 million) for the year ended December 31, 2009. Our overall forest maintenance fees were higher in 2009 because of our increased harvestation activities.

Other operating expenses

Other operating expenses increased by approximately RMB19.3 million, or 135.0%, from RMB14.3 million for the year ended December 31, 2008 to RMB33.6 million (US$5.0 million) for the year ended December 31, 2009, primarily due to the increase in education levy, urban education levy and listing fees.

Rental expenses of properties

Rental expenses of properties increased by approximately RMB0.6 million, or 42.9%, from RMB1.4 million for the year ended December 31, 2008 to RMB2.0 million (US$0.3 million) for the year ended December 31, 2009, primarily due to additional office space that we leased in Hong Kong in 2008.

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

Reversal of fair value of plantation assets upon logging and sales of the plantation assets increased by approximately RMB223.1 million or 58.0% from RMB384.9 million for the year ended December 31, 2008 to RMB608.0 million (US$89.7 million) for the year ended December 31, 2009, primarily due to the increase in sales volume and the increase in average selling price.

Staff costs

Staff costs decreased by approximately RMB81.4 million, or 82.9%, from RMB98.2 million for the year ended December 31, 2008 to RMB16.8 million (US$2.5 million) for the year ended

December 31, 2009, mainly due to the RMB88.6 million in share-based payment expenses in connection with the equity-settled share based transaction between Mr. Li Kwok Cheong and Mr. Li Han Chun on March 31, 2008. The decrease was partially offset by annual increase in base salaries and performance bonuses and the increase in staff compensation from an increased number of employees. Headcount increased from 2008 to 2009, due to our employment of new forest workers in connection with recent forest acquisitions.

Travelling expenses

Travelling expenses increased by approximately RMB0.3 million, or 17.6%, from RMB1.7 million for the year ended December 31, 2008 to RMB2.0 million (US$0.3 million) for the year ended December 31, 2009, primarily due to increased forest management activity.

Profit from operations

As a result of the foregoing, our profits from operations decreased by approximately RMB5,294.6 million or 90.0% from RMB5,884.1 million for the year ended December 31, 2008 to RMB589.5 million (US$86.9 million) for the year ended December 31, 2009.

Net financing cost

Our net financing cost increased approximately by RMB75.5 million from RMB2.4 million for the year ended December 31, 2008 to RMB77.9 million (US$11.5 million) for the year ended December 31, 2009 primarily from deemed interest expenses. The increase in net financing cost was primarily due to the large portion of consideration payable in connection with the Yunnan forest acquisition in 2008 that was incurred in 2009.

Profit for the year

As a result of the foregoing, profit for the year decreased by approximately RMB5,370.2 million, or 91.3%, to approximately RMB511.6 million (US$75.4 million) for the year ended December 31, 2009 from approximately RMB5,881.8 million for the year ended December 31, 2008.

Comparison of the years ended December 31, 2007 and 2008

Turnover

Our turnover, or revenues, increased by approximately RMB384.6 million, or 239.9%, from RMB160.3 million for the year ended December 31, 2007 to RMB544.9 million for the year ended December 31, 2008. The increase in revenues in 2008 was primarily due to a significant increase in the volume of our logs sold during this period. We sold 520,407 m^3 of logs in the year ended December 31, 2008, an approximately 206.5% increase from the 169,800 m^3 of logs sold in the year ended December 31, 2007. The increase in volume of our logs sold was mainly attributable to harvesting from the Yunnan forest that we acquired in 2008. However, the positive effects of the increased volume of our logs sold to our revenues for the year ended December 31, 2008 was partially offset by the decrease in our average log prices during the same period. The average log price (excluding VAT) for Chinese fir decreased by approximately RMB56 or 5.9%, from RMB944 per m^3 for the year ended December 31, 2007 to RMB888 per m^3 for the year ended December 31, 2008, and for Yunnan pine decreased by approximately RMB85 per m^3 or 9%, from RMB945 per m^3 for the year ended December 31, 2007 to RMB860 per m^3 for the year ended December 31, 2008, which was primarily due to reduced demand associated with the global financial crisis commencing in September 2008.

Other operating income

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

Amortization of insurance premium

Amortization of insurance premium increased by approximately RMB7.8 million, or 371.4%, from RMB2.1 million for the year ended December 31, 2007 to RMB9.9 million for the year ended December 31, 2008, primarily due to our larger forest area resulting from our new forest acquisitions in 2008.

Amortization of lease prepayments

Amortization of lease prepayments increased by approximately RMB4.2 million, or 600.0%, from RMB0.7 million for the year ended December 31, 2007 to RMB4.9 million for the year ended December 31, 2008, primarily due to our larger forest area resulting from our new forest acquisitions in 2008.

Changes in fair value of plantation assets less costs to sell

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

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

Consultancy fees

Consultancy fees increased by approximately RMB20.7 million, or 6,900.0% from RMB0.3 million for the year ended December 31, 2007 to RMB21.0 million for the year ended December 31, 2008. The significant increase of the consultancy fees in 2008 was primarily due to our acquisition of new forests in Yunnan.

Foreign exchange loss

Although none of our sales were denominated in currency other than Renminbi, we had a foreign exchange loss during 2008 as a result of the US$35 million investment from the Carlyle Funds. Because such investment amount was made in US dollars, and because of the decline of the US Dollar against the Renminbi between the date the cash was received in our bank account and December 31, 2008, we recognized a foreign exchange loss of RMB3.1 million in 2008.

Operating expenses for logging activities

Operating expenses for logging activities increased by approximately RMB106.9 million, or 276.2%, from RMB38.7 million for the year ended December 31, 2007 to RMB145.6 million for the year ended December 31, 2008, primarily due to increased harvesting and commencement of harvesting from our Yunnan Luxi/Shuangjiang Forest in May 2008, resulting in increased cost of harvesting, and increased costs associated with applying for logging permits. Our cost of harvesting increased 33.5% from RMB173 per m^3 in 2007 to RMB231 per m^3 in 2008 because of increased harvesting fee charged by the villages as the cost of workers increased as well as the fact that we engaged a professional harvesting company for our Yunnan Luxi/Shuangjiang Forest in the 2008 first half. Our costs associated with applying for logging permits, consisting of forest maintenance fees payments, increased by 171.0% from approximately RMB9.3 million in 2007 to approximately RMB25.2 million in 2008 because of increased logging activities as we began the operations at our Yunnan Luxi/Shuangjiang Forest in May 2008.

Other operating expenses

Other operating expenses increased by approximately RMB8.8 million, or 160.0%, from RMB5.5 million for the year ended December 31, 2007 to RMB14.3 million for the year ended December 31, 2008, primarily due to education levy and urban education levy and a donation of RMB3.0 million for the Sichuan Earthquake in May 2008.

Rental expenses of properties

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

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

Reversal of fair value of plantation assets upon logging and sales of the plantation assets increased by approximately RMB263.8 million, or 217.8% from RMB121.1 million for the year ended December 31, 2007 to RMB384.9 million for the year ended December 31, 2008, primarily due to increased turnover and new types of logs with higher log prices the sale of which commenced in 2008.

Staff costs

Staff costs increased from RMB3.5 million for the year ended December 31, 2007 to RMB98.2 million in the year ended December 31, 2008. Of the RMB98.2 million, RMB88.6 million represented the share-based payment expenses in connection with the equity-settled share based transaction between Mr. Li Kwok Cheong and Mr. Li Han Chun on March 31, 2008. Aside from the increase due to the share based transaction, increase in our staff costs was driven primarily by a large increase in salaries, due to the impact of the PRC Labor Contract Law which took effect on January 1, 2008, and to a lesser extent by the increase in headcount. The PRC Labor Contract Law establishes minimum wage, safety and educational requirements, all of which increased our staff costs as well as our regulatory compliance costs. Headcount increased from 2007 to 2008, due to our employment of new forest workers from daily maintenance of our forests in Yunnan, which we acquired in 2008.

Profit from operations

As a result of the foregoing, our profits from operations increased by approximately RMB5,100.5 million from RMB783.6 million for the year ended December 31, 2007 to RMB5,884.1 million for the year ended December 31, 2008.

Net financing cost

We recognized deemed interest expenses for forest acquisitions in 2008. This deemed interest expense offset the entire interest income earned from our cash deposits during the same period in the amount of RMB3.9 million. As a result, our net financial cost decreased by RMB2.6 million or 1,494.3% from a net financial income of RMB174,094 for the year ended December 31, 2007 to a net financing cost of RMB2.4 million for the year ended December 31, 2008.

Profit for the year

As a result of the foregoing, profit for the year increased by approximately RMB5,098.1 million to RMB5,881.8 million for the year ended December 31, 2008 from RMB783.7 million for the year ended December 31, 2007.

Liquidity and Capital Resources

We expend a significant amount of cash in our operations, principally on acquisitions of new forests. We also expend cash in purchasing forest insurance, fixed assets and staff costs. We fund our operations principally through cash flow from operations and cash generated from financing activities. In 2008, we raised US$35 million through an external investment from the Carlyle Asia Growth Partners III, L.P. and Carlyle Funds. In 2009, we further raised approximately US$41 million from the Carlyle Funds and Partners Group Access 119 L.P. and International Fund Management S.A. (the "Partners Group Funds"). In addition, in December 2009 we raised net proceeds of RMB1,368.4 million in connection with our initial public offering and listing on the Hong Kong Stock Exchange.

As of December 31, 2007, 2008 and 2009, and as of June 30, 2010, cash and cash equivalents were RMB1.0 million, RMB104.5 million, RMB1,706.6 million (US$251.7 million) and RMB1,534.7 million (US$226.3 million), respectively.

We believe that the net proceeds from this offering, together with our existing liquidity sources and anticipated cash from operations, will satisfy our cash requirements for at least the next 12 months. However, if we are not able to continue to generate positive cash flows from operations, we may need to consider alternative financing sources and seek additional funds through public or private equity financings or from other sources to support our working capital requirements or for other purposes. There can be no assurance that additional financing will be available to us or that, if available, such financing will be available on terms favorable to us, if at all.

Cash flow

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

	Years ended December 31				Six months ended June 30		
	2007	2008	2009	2009	2009	2010	2010
	RMB	RMB	RMB	US$	RMB	RMB	US$
			(in thousands)				
Net cash generated from operating activities	96,042	376,593	591,330	87,198	284,888	362,283	53,422
Net cash used in investing activities	(120,001)	(347,835)	(668,064)	(98,513)	(287,586)	(376,314)	(55,491)
Net cash generated from (used in) financing activities.	—	74,744	1,679,511	247,661	280,145	(157,911)	(23,286)
Net movement in cash and cash equivalents. . .	(23,959)	103,502	1,602,777	236,346	277,447	(171,942)	(25,355)

Net cash generated from operating activities

Net cash generated from operating activities for the six months ended June 30, 2010 amounted to RMB362.3 million (US$53.4 million), while our profit from operations for the same period was RMB428.3 million (US$63.2 million). The difference between these two amounts was due primarily to the changes in fair value of plantation assets less costs to sell, notably (a) changes in fair value of plantation assets less costs to sell of RMB470.6 million (US$69.4 million), which amount was subtracted from profit from operations for the period when calculating net cash from operating activities; and (b) the reversal of fair value of plantation assets upon logging and sale of the plantation assets for that period amounting to 362.8 million (US$53.5 million) because of sales of logs and timber, which amount was added to the profit from operations for the period when calculating net cash from operating activities.

Net cash generated from operating activities for the year ended December 31, 2009 amounted to RMB591.3 million (US$87.2 million), while our profit from operations for the same period was RMB589.5 million (US$86.9 million). The difference between the two amounts was small because even though the changes in fair value of plantation assets less costs to sell amounted to RMB681.3 million (US$100.5 million) for 2009 (which amount was subtracted from operations for the year when calculating net cash from operating activities), that amount was offset by (a) RMB608.0 million (US$89.7 million) in reversal of fair value of plantation assets upon logging and sales of the plantation assets in 2009, (b) RMB93.1 million (US$13.7 million) increase in other payables, and (c) RMB78.4 million (US$11.6 million) in interest expense due primarily to deemed interest expenses in connection with recent forest acquisitions.

Net cash generated from operating activities for the financial year ended December 31, 2008 amounted to RMB376.6 million, while our profit from operations for the same period was RMB5,884.1 million. The difference between these two amounts was largely due to changes in fair value of plantation assets, notably (a) changes in fair value of plantation assets less costs to sell for that period amounting to RMB6,024.4 million, primarily due to our acquisition of the Yunnan Luxi/Shuangjiang Forest in the 2008 first quarter, which amount was subtracted from profit from operations for the period when calculating net cash from operating activities; and (b) decreases in inventories, including reversal of fair value of plantation assets upon logging and sale of the plantation assets for that period amounting to RMB384.9 million because of sales of logs and timber, which amount was added to profit from operations for the period when calculating net cash from operating activities. A portion of the difference was also due to the fact that the share-based payment of RMB88.6 million in the six months period ended June 30, 2008 was added to profit from operations for the period when calculating net cash from operating activities.

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

Net cash used in investing activities

Net cash used in investing activities for the six months ended June 30, 2010 was RMB376.3 million (US$55.5 million), consisting primarily of RMB190.3 million (US$28.1 million) prepayment for acquisition of plantation assets which we paid as a deposit towards the acquisition of forest lands in Guizhou province and RMB179.4 million (US$26.5 million) for other financial assets, including investments in money market funds and a subordinated note.

Net cash used in investing activities for 2009 was RMB668.1 million (US$98.5 million), consisting primarily of capital expenditures on plantation assets in an amount of RMB445.0 million (US$65.6 million) and capital expenditures on lease prepayments of RMB130.9 million (US$19.3 million).

Net cash used in investing activities for 2008 was RMB$347.8 million, consisting primarily of capital expenditures on plantation assets of RMB269.8 million and capital expenditures on lease prepayments of RMB68.4 million.

Net cash used in investing activities for 2007 was RMB120.0 million, consisting primariy of capital expenditures on plantation assets of RMB97.6 million and capital expenditures on lease prepayments of RMB22.6 million.

Net cash generated from (used in) financing activities

We used net cash in financing activities for the six months ended June 30, 2010 in the amount of RMB157.9 million (US$23.3 million), due primarily to the payment of dividends paid in June 2010.

We generated net cash from financing activities for the year ended December 31, 2009 in the amount of RMB1,679.5 million (US$247.7 million) due primarily to the proceeds from the issuance of our shares during the Hong Kong initial public offering and related global offering.

We generated net cash from financing activities for the year ended December 31, 2008 in the amount of RMB74.7 million. This was due primarily to the receipt of proceeds from our issuance of shares (net of related expenses) to the Carlyle Funds in the amount of RMB248.1 million and the payment made to our shareholders upon our corporate reorganization in connection with our initial public offering and listing of our shares on the Hong Kong Stock Exchange in the amount of RMB173.4 million.

We did not generate any net cash from financing activities in 2007.

Working capital

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

Net current assets/liabilities position. As of December 31, 2007, 2008 and 2009, we had a net current assets position of RMB20.4 million, net current liabilities position of RMB169.4 million, and net current assets position of RMB1,587.2 million (US$234.1 million), respectively. As of June 30, 2010, we had a net current asset position of approximately RMB1,559.4 million (US$230.0 million).

Cash flow from operations. Net cash generated from operating activities amounted to RMB96.0 million, RMB376.6 million, and RMB591.3 million (US$87.2 million), respectively, for the years ended December 31, 2007, 2008 and 2009, and RMB284.9 million and RMB362.3 million (US$53.4 million), respectively, for the six months ended June 30, 2009 and 2010.

Bank balances and cash. As of December 31, 2007, 2008 and 2009, we had deposits and cash at bank and in hand of RMB1.0 million, RMB104.5 million, and RMB1,706.6 million (US$251.7 million), respectively. As of June 30, 2010, we had deposits and cash at bank and in hand of RMB1,534.7 million (US$226.3 million).

Other payables. As of December 31, 2007, 2008 and 2009, our other payables were RMB2.3 million, RMB632.5 million, and RMB174.7 million (US$25.8 million) respectively. As of June 30, 2010, our other payables were RMB210.3 million (US$31.0 million).

Inventories. As of December 31, 2007, 2008 and 2009, our inventories were RMB0.3 million, nil, and nil respectively. As of June 30, 2010, our inventories were RMB0.1 million (US$19,000).

Borrowings

We had no outstanding indebtedness during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010. As of June 30, 2010, we had no outstanding indebtedness or banking facilities. We have entered into a non-binding credit facility agreement with Shenzhen Development Bank which has agreed, in principle, to grant us a credit line of not more than RMB1.0 billion, subject to the signing of definitive credit facilities. Pursuant to this non-binding agreement, during the credit facility period, the credit facility may be revolved and can be provided in the form of a loan, trade financing, guarantee, letter of credit, bill exchange, overdraft, etc. The terms (including the amount, method and period) of each drawdown of the credit line will be agreed by the parties, provided that the total credit amount does not exceed RMB1.0 billion. We expect to enter into binding credit facilities with the bank on specific terms when we apply for credit facilities, subject to the bank's agreement at that time.

Net current assets

The following table sets forth our current assets, current liabilities and net current assets as of June 30, 2010:

	As of June 30, 2010	
	RMB	US$
	(in thousands)	
Current assets		
Inventories	130	19
Other receivables	54,928	8,100
Other financial assets	179,996	26,542
Cash and cash equivalents	1,534,695	226,306
Total current assets	1,769,749	260,967
Current liabilities		
Other payables	(210,333)	(31,016)
Total current liabilities	(210,333)	(31,016)
Net current assets	1,559,416	229,951

The "other payables" were primarily the payables for salary and staff welfare payables and VAT payables, in the amount of approximately RMB210.0 million (US$31.0 million) as of June 30, 2010.

Contractual obligations

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

The following table sets forth our contractual obligations as of June 30, 2010.

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
	RMB (in thousands)				
Debt obligations	—	—	—	—	—
Capital (finance) lease obligations	—	—	—	—	—
Operating lease obligations	4,818	2,869	1,846	103	—
Purchase obligations[1]	466,275	466,275	—	—	—
Other long-term liabilities reflected on the company's balance sheet	—	—	—	—	—
Total	471,093	469,144	1,846	103	—

(1) *Consisting primarily of RMB464.0 million (US$68.4 million) of authorized and contracted for amounts in connection with the definitive acquisition agreements we entered into in February 2010 for the acquisition of 53,333 hectares in Ninglang and RMB2.3 million (US$0.3 million) for the acquisition of fixed assets. Since June 30, 2010, our total purchase obligations have increased in connection with the recent definitive acquisition agreements we entered into to acquire forest lands in Guizhou province and Dali. See "Recent Developments."*

Commitments, contingent liabilities and off-balance sheet arrangements

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

In addition, we may also become subject to new environmental laws and regulations that may impose contingencies upon us in the future. Such laws and regulations may impose significant costs, expenses and liabilities in the future. See "Risk Factors — Risks Related to our Industry — Our forests and operations are in China and are subject to significant PRC regulations." Regulatory changes may adversely affect our forests, our forest rights, and our business, financial conditions and results of operations.

We are required to replant at least 100% of our trees after we harvest them. During the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, the saplings for replanting were provided by local forestry bureaus as part of the fees we paid to them without any additional charge, but should these authorities stop supplying us with saplings, or decide to charge for them, we would have to incur costs in purchasing such saplings.

As of June 30, 2010, we had total capital commitments of RMB4.2 billion (US$619.3 million), including approximately RMB3.8 billion in connection with authorized but not contracted for forest acquisitions covered under our non-binding framework agreements and approximately RMB464.0 million in connection with authorized and contracted for forest acquisitions covered under our definitive acquisition agreements. Subsequent to June 30, 2010, our total capital commitments have increased due to (i) the increase in authorized and contracted for amounts in connection with definitive acquisition agreements for forest lands in Guizhou province and Dali, and (ii) increases in authorized but not contracted for amounts arising from the recent framework agreements we entered into. See "Recent Developments."

Capital Expenditures

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we had capital expenditures of RMB115.2 million, RMB914.3 million, RMB655,897 (US$97,000) and RMB192,870 (US$28,000). Our capital expenditures consisted primarily of lease prepayments and acquisition costs of new forests. We divide our primary capital expenditures into lease prepayments and plantation assets at the date of acquisition. Capital expenditures in lease prepayments principally relate to the payments we make to acquire land use rights in connection with new forest acquisitions. Capital expenditures in plantation assets consist of acquisition costs of new forests less land value of such forests.

For 2007, 2008 and 2009 and the first half of 2010, we incurred capital expenditures in lease prepayments of RMB21.6 million, RMB199.3 million, nil and nil, respectively. Additionally, for 2007, 2008 and 2009 and the first half of 2010, we incurred capital expenditures in plantation assets of RMB93.6 million, RMB715.0 million, RMB655,897 (US$97,000) and RMB192,870 (US$28,000), respectively.

As we intend to continue strategically acquiring new forests, we will continue to make capital expenditures in connection with new acquisitions.

Market risks

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

Price risk

We are exposed to fluctuations in timber prices, which are dictated by demand and supply cycles of the timber industry. Timber price movements may significantly impact our earnings, cash flows, as well as the value of our plantation assets. During the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we did not experience any notable price fluctuations. Based on our review of price trends in the past, we believe that log prices will continue to rise due to demand in the PRC for logs and the decrease in imported logs. We manage price risk by monitoring publicly available information about PRC log prices, in tandem with our other risk management policies as described below.

Interest rate risk

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

Foreign exchange risk

At present, all of our sales are denominated in Renminbi. Some of our assets and liabilities were denominated in foreign currencies and we did not engage in any hedging measures against currency risk. During the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, all of our revenue and the majority of our costs incurred were denominated in Renminbi. As of December 31, 2007, there were no assets and liabilities which were denominated in a foreign currency. Our assets (not including cash and cash equivalents) denominated in foreign currency consisted of US$129,400 and HK$7.9 million as of December 31, 2008, US$2,850 and HK$182,849 as of December 31, 2009 and US$26.2 million and HK$722,569 as of June 30, 2010. Our liabilities denominated in foreign currency consisted of US$7,688 and HK$7.9 million as of December 31, 2008, US$7,688 and HK$1.2 million as of December 31, 2009 and HK$2.5 million as of June 30, 2010. Our cash in foreign currency consisted of US$8.5 million and HK$21,948 as at December 31, 2008, US$74.1 million and HK$1.4 billion as of December 31, 2009 and US$382.7 million and HK$227.0 million as of June 30, 2010.

Although none of our sales are denominated in a currency other than Renminbi, we had a foreign exchange loss in 2008, as a result of the US$35 million investment from the Carlyle Funds in 2008. Because the cash payment was in US dollars, and because of the gain in the Renminbi against the US dollar between the date the cash was deposited in our bank account and December 31, 2008, we had a foreign exchange loss of RMB3.1 million for 2008. However, because all of our sales are denominated in Renminbi, we believe that our exposure to foreign exchange risks from sales transactions is insignificant. We experienced a foreign exchange loss in 2009 as a result of the US$41 million investment from the Carlyle Funds and the Partners' Group in 2009 and our receipt of net proceeds of HK$1,553.4 (US$199.2 million) from our initial public offering in December 2009 and the appreciation of the Renminbi against the US dollar and HK dollar after such financing activities. We experienced a foreign exchange gain in the first half of 2010 because of the foreign exchange gain from our investments in other financial assets.

Customer credit risk

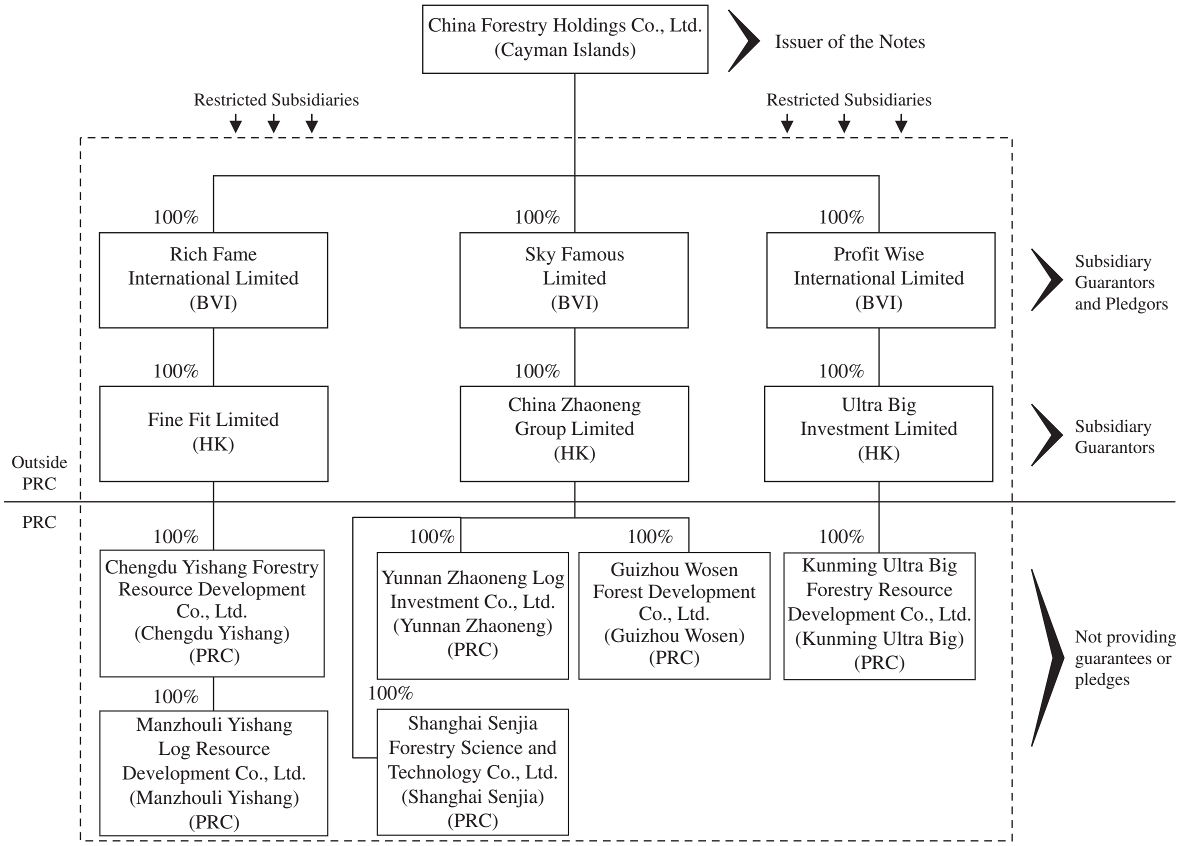
Our sales are not made on credit terms, thus our customer credit risk is insignificant. Our customers pay for the entire order upfront prior to our delivery of the logs. In the future, as our business operations increase in complexity, we may offer extended credit periods to certain customers if needed.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

CORPORATE STRUCTURE

We are a holding company. Our operating subsidiaries are located in the PRC, which we hold through direct and indirect wholly-owned holding company subsidiaries in the British Virgin Islands and Hong Kong. Our direct and indirect wholly-owned holding company subsidaries and operating PRC subsidiaries are as follows:

- Rich Fame International Limited is a BVI limited liability investment holding company.
- Sky Famous Limited is a BVI limited liability investment holding company.
- Profit Wise International Limited is a BVI limited liability investment holding company.
- Fine Fit Limited is a Hong Kong limited liability investment holding company.
- China Zhaoneng Group Limited is a Hong Kong limited liability investment holding company.
- Ultra Big Investments Limited is a Hong Kong limited liability investment holding company.
- Chengdu Yishang Forestry Resource Development Co., Ltd. is a PRC limited liability company engaged in the management and development of forest and sales of logs.
- Shanghai Senjia Forestry Science and Technology Co. Ltd. is a PRC limited liability company engaged in providing professional services in forestry technology and information technology.
- Yunnan Zhaoneng Log Investment Co., Ltd. is a PRC limited liability company engaged in wood processing.
- Kunming Ultra Big Forestry Resource Development Co., Ltd. is a PRC limited liability company engaged in the management and development of forest and sales of logs.
- Manzhouli Yishang Log Resource Development Co., Ltd. is a PRC limited liability company engaged in the manufacture and development of forest and sales of logs.
- Guizhou Wosen Forest Development Co., Ltd. is a PRC limited liability company engaged in the manufacture of environmental friendly forest products, cultivation of trees and sale of relevant products.

The chart below illustrates our corporate and shareholding structure as of the date of this document:



Forest Resources in China

Introduction

The forestry industry provides timber resources and processed wood products to various industries. The forestry value chain can be divided into up-stream and downstream components. The up-stream component is forest resource management, which includes forest planning, planting, stand tending, forest management, harvesting and transportation of logs. The downstream component consists of wood-based and value-added processing. Wood-based processing involves the processing of logs into products such as sawn timber, plywood, veneer, reconstituted panels, wood pulp and paper. Value-added processing involves the manufacture of moldings, flooring, furniture, as well as other residential and industrial materials.

Scale and Growth

The following table sets forth estimated forest area, growth in forest area, stock volume, forest density, forest cover and per capita forest area of the top five nations by forest area in 2010:

	Forest area [1] (million hectares)	2005-2010E Growth in forest area (%)	Stock volume (million m^3)	Forest density[2] (m^3/hectare)	Forest cover[3] (%)	Per capita forest area (hectare/ capita)
Russia	809	0%	81,523	101	47%	5.7
Brazil	520	-2%	126,221	243	61%	2.6
Canada	310	0%	32,938	106	31%	9.1
United States	304	1%	47,088	155	32%	1.0
China	207	7%	14,684	71	22%	0.2
World	4,137	1%	N/A	N/A	31%	0.6

Notes:

(1) According to the Food and Agriculture Organization of the Unite Nations, or FAO, forest is defined as land spanning more than 0.5 hectares with trees higher than 5 meters and a canopy cover of more than 10%, or trees able to reach these thresholds in situ. It does not include land that is predominantly under agricultural or urban land use.

(2) Defined as stock volume divided by forest area.

(3) Defined as forest area as a percentage of total country land area.

Source: Technical Report issued by CFK in August, 2010, which was commissioned by the Company (the "CFK Report")

According to the CFK Report, China's forest area amounted to 207 million hectares in 2010, which is the fifth largest in the world. However, China's forest density, forest cover and per capita forest area are lower than the other four largest nations by forest area. In particular, China's forest cover and per capita forest area are significantly lower than the world average. This is primarily due to China's history of forest exploitation and a large population. China's forests are on average also less productive than the other major forest owning nations, due primarily to the location of a considerable proportion of its forests in the northern and mountainous regions of the country, where underlying climatic conditions have an adverse effect on productivity. Consequently, supply of forest resources is more limited in China than that in other major forest owning nations.

Recognizing this, the Chinese government has put effort to preserve the area of existing natural forest and expand total forest area using plantations since the 1990s. As a result, China's forest area is fast growing and is estimated to grow by 7% from 2005 to 2010, which is significantly higher than the estimated forest area growth in Russia, Brazil, Canada and the United States in the same period. Plantations are estimated to make up 31% of China's forest area in 2010, compared to a mean of 3.5% for Russia, Brazil, Canada and the United States.

Geographical Distribution

The following table sets forth the five largest provinces by forest area in China in 2009 as compiled from a number of State Forestry Administration sources:

Province	**Forest area (million hectares)**
Inner Mongolia	21.2
Heilongjiang	18.1
Yunnan	16.2
Sichuan	15.2
Tibet	13.9

Source: CFK Report.

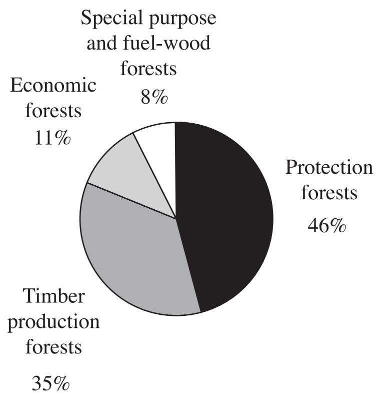
China's forests are abundant in the northeast and southwest regions of the country and are scarce in the north and northwest region of the country. Three of the top five provinces, including Yunnan, Sichuan and Tibet, are located in the southwest region of the country with the remaining two located in the northeast region.

Forest Function

China's forests can be broadly classified by function as:

- *Protection forests*, which are for the conservation of soil and water, protection of infrastructure and agriculture, or protection from wind, sand or fire;
- *Special purpose forests*, which are for scientific research, preservation, cultural protection, as well as environmental and defence planting;
- *Timber production forests*, which are mainly for the supply of general industrial timber, industrial fibre, as well as paper and pulp; and
- *Economic forests*, which are for the production of fruit and nuts, oil crops, chemical materials, medicines, as well as herbs and spices.

The following pie chart sets forth China's forests by function in 2008:



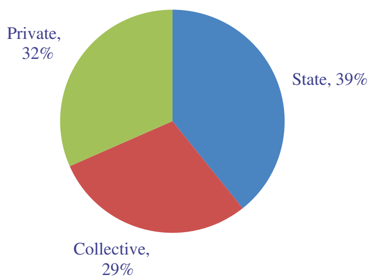
Source: CFK Report.

According to the CFK Report, there are approximately 64 million hectares of timber forests in China as of 2008. Of this, only about 11.4 million hectares, or an estimated stock volume of 2.1 billion m^3, are harvestable. An additional 9.5 million hectares, with an estimated stock volume of 1.1 billion m^3, are close to harvestable age.

Ownership of Forest Use Rights

In China, rural land is owned by village collectives or the state. Individuals or private entities may own forest use rights and hold a forest use right certificate, which is a registered document with the local forest bureau for land use with a term up to 70 years, or a land lease, where annual rental is paid and land is used under mutually agreed upon commercial terms.

The following pie chart sets forth forest use rights ownership by sectors in China in 2008:



Source: CFK Report.

In recent years, the Chinese government has focused on privatizing and commercializing forests in order to improve their productivity. As a result, forest use rights owned by village collectives, private individuals or entities have increased from 49% in the sixth national forest survey conducted from 1998 to 2003 to 61% in the seventh national forest survey conducted from 2003 to 2008, of which private forest use rights increased from 2% to 32% for the same period.

The CFK Report estimated that there is between 50 and 70 million hectares of forest area that could be potentially acquired, which has been attracting significant interest from a large number of individuals and public and private organizations within China.

The Timber Industry in China

Introduction

Timber in this industry overview refers to logs, lumber, plywood, reconstituted panels and blockboard that enter the industrial supply chain. It does not include:

- Firewood, which is not regarded as industrial grade timber;
- Posts, poles and unprocessed wood used in construction and rural wood use, which there are no records of; and
- Wood pulp, which is not a significant driver of log demand, and is more of a by-product of lumber, plywood, reconstituted panels and blockboard production, except wood pulp produced by fast growth high yield, or FGHY, plantations specifically for the paper and pulp industry.

Logs are used primarily in the manufacture of the following timber products:

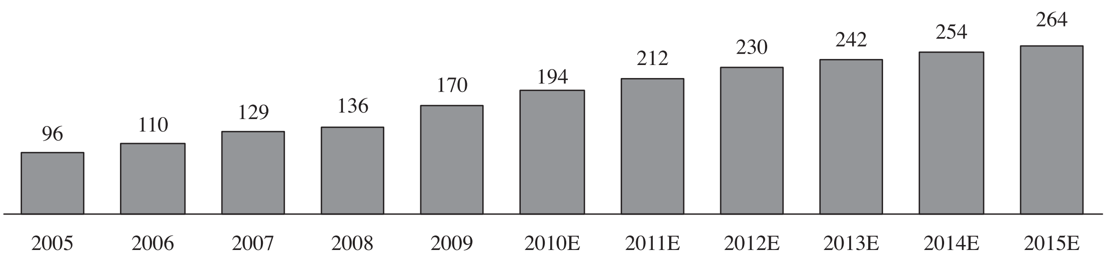
- *Lumber,* which is pieces of solid wood produced by sawing up round logs;
- *Blockboard,* which is solid wood panels produced by gluing the residue round log pieces together, respectively;
- *Plywood,* which is laminated sheets of wood; and
- *Reconstituted panels,* which are fibreboard and particleboard panels produced from low grade wood.

Domestic Timber Consumption

Overview

The following table sets forth China's timber consumption for the periods indicated:

(million m^3 of log equivalents[(1)])



Source: CFK Report.

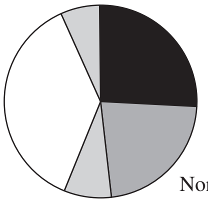
Note

(1): Log equivalents are defined as the volume of logs or other round products required to produce a given quantity of lumber, plywood or reconstituted panels. CFK has used the following factors: 1 m^3 of lumber is equivalent to 1.54 m^3 of logs, 1 m^3 of plywood is equivalent to 1.43 m^3 of logs and 1 m^3 reconstituted panels is equivalent to 1.3 m^3 of logs.

Domestic timber consumption grew from 96 million m^3 of log equivalents in 2005 to 170 million m^3 of log equivalents in 2009, representing a compound annual growth rate (CAGR) of 15.4%. From 2009 to 2015, domestic timber consumption is estimated to grow at 7.6% per year, primarily driven by continued urbanization and increased affluence of the domestic population.

Growth Drivers

The following table sets forth China's timber consumption by end user in 2009:



Source: CFK Report.

Domestic timber consumption is predominantly driven by the construction and furniture industries, representing 48% and 37%, respectively, of timber consumption in 2009. Another 8% is used for other industrial purposes, which includes packaging, container flooring and truck decking. The remaining 7% is consumed in the export market.

Construction

The construction industry in China has been growing rapidly. Total area under construction grew from 3.5 billion m^2 in 2005 to 5.8 billion m^2 in 2009, representing a growth rate of 13.1% per year. It is estimated to continue to experience strong growth from 2009 to 2015 at a growth rate of 9.4% per year.

The following table sets forth China's total area under construction, a key indicator of the size of the construction industry, for the periods indicated:

	2005	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2005-2009 CAGR**	**2009-2015E CAGR**
	(billion m^2, except percentages)												
Area under construction	3.5	4.1	4.8	5.3	5.8	6.3	7.0	7.7	8.4	9.1	9.9	13.1%	9.4%

Source: CFK Report.

Furniture

The furniture production index tracks the volume of furniture produced in China. It grew from 278 in 2005 to 336 in 2009, representing a 4.9% growth each year. It is estimated to continue to experience growth, albeit at a slower pace, from 2009 to 2015.

The following table sets forth the China's furniture production index for the periods indicated:

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2005-2009 CAGR	2009-2015E CAGR
	(notional units, except percentages)												
Furniture production index	278	317	353	342	336	356	381	408	432	454	477	4.9%	6.0%

Source: CFK Report.

The strong growth of the construction and furniture industries is fundamentally driven by:

- *China's high urbanization rate*. China's population urbanization rate has increased from 13% in 1950 to 41% in 2005, and is estimated to reach 64% by 2020, according to the CFK Report; and
- *Increased consumption from growing affluence of China's population.* China's GDP per capita has increased from US$310 in 1980 to US$3,680 in 2009, and is expected to increase to US$15,770 by 2020, according to the Economist Intelligence Unit.

Domestic Timber Production

Overview

The following table sets forth lumber, plywood, blockboard, reconstituted panels and overall timber production in China for the periods indicated:

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E	2005-2009 CAGR	2009-2015E CAGR
	(log equivalents[(1)] in million m^3)												
Lumber	35.8	46.5	52.5	53.6	64.1	75.3	84.2	92.9	99.8	106.2	112.1	15.7%	9.8%
Plywood	36.0	39.0	50.9	50.6	60.0	64.8	68.7	72.9	76.0	79.0	82.0	13.6%	5.3%
Blockboard	15.1	17.8	20.4	20.0	22.8	24.4	25.8	27.2	28.3	29.4	30.4	10.9%	4.9%
Reconstituted panels	7.5	11.0	10.8	14.8	19.0	20.0	20.8	21.5	22.3	22.9	23.6	26.2%	3.7%
Total production	94.4	114.3	134.6	139.0	165.9	184.5	199.5	214.5	226.4	237.5	248.1	15.1%	6.9%

Source: CFK Report.

Note:

(1) Log equivalents are defined as the volume of logs or other round products required to produce a given quantity of lumber, plywood or reconstituted panels. CFK has used the following factors; 1 m^3 of lumber is equivalent to 1.54 m^3 of logs, 1 m^3 of plywood is equivalent to 1.43 m^3 of logs and 1 m^3 reconstituted panels is equivalent to 1.3 m^3 of logs.

Domestic timber production grew from 94.5 million m^3 of log equivalents in 2005 to 165.9 million m^3 of log equivalents in 2009, representing a CAGR of 15.1%. From 2009 to 2015, domestic timber production is expected to grow at 6.9% per year, primarily driven by a positive timber demand outlook.

Import and export of timber in China

Overview

The following table sets forth China's timber import and export volume for the periods indicated:

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
					(log equivalents[1] in million m^3)						
Logs[2]	30.4	30.8	36.6	29.6	28.2	35.9	35.2	38.8	39.3	40.3	39.4
Lumber	9.3	9.5	10.1	10.9	15.2	20.9	25.5	28.9	30.9	31.8	32.4
Reconstituted panels	2.3	1.9	1.6	1.1	0.8	0.8	0.9	1.0	1.1	1.1	1.2
Plywood	0.8	0.6	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Blockboard	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total imports	42.8	42.8	48.7	42.0	44.5	57.9	61.9	69.0	71.6	73.5	73.3
% of consumption	*22.8%*	*21.6%*	*22.8%*	*19.3%*	*23.5%*	*26.1%*	*26.3%*	*27.5%*	*27.1%*	*26.5%*	*25.2%*
Plywood	7.9	11.9	12.5	10.3	8.0	9.1	10.0	10.8	11.4	12.0	12.6
Reconstituted panels	1.9	2.7	4.2	3.7	3.4	3.0	3.3	3.6	3.8	4.1	4.3
Blockboard	1.1	1.4	1.6	1.6	1.8	1.9	2.0	2.1	2.2	2.3	2.4
Lumber	1.0	1.3	1.2	1.1	0.9	0.8	0.9	0.9	0.9	0.9	0.9
Logs[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total exports	11.9	17.3	19.5	16.7	14.1	14.8	16.2	17.4	18.3	19.3	20.2
% of consumption	*6.4%*	*8.7%*	*9.1%*	*7.6%*	*7.5%*	*6.7%*	*6.9%*	*6.9%*	*7.0%*	*6.9%*	*6.9%*
Net imports	30.9	25.5	29.2	25.3	30.4	43.1	45.7	51.6	53.3	54.2	53.1

Source: CFK report.

Notes:

(1) *Log equivalents are defined as the volume of logs or other round products required to produce a given quantity of lumber, plywood or reconstituted panels. CFK has used the following factors; 1 m^3 of lumber is equivalent to 1.54 m^3 of logs, 1 m^3 of plywood is equivalent to 1.43 m^3 of logs and 1 m^3 reconstituted panels is equivalent to 1.3 m^3 of logs.*

(2) *Contains a small and inseparable portion that is used in the manufacture of wood pulp, mainly as a processing by-product.*

Timber net imports in China reached 30.3 million m^3 in 2009 and are estimated to increase further from 2009 to 2015. According to CFK, China is expected to remain a major net importer and the largest importer of wood in the world for the foreseeable future, with timber imports likely to remain at 20% of total timber consumption at least for the next five years. This is primarily due to China's strong and continuing demand for timber and limited supply. China's strong reliance on timber imports provides strong price and demand support for domestically produced timber.

Imports

China timber imports increased from 42.9 million m^3 in 2005 to 48.8 million m^3 in 2007, primarily due to domestic demand outstripping domestic supply. Timber imports decreased to 42.0 million m^3 in 2008, primarily due to the global economic crisis, and increased to 44.4 million m^3

in 2009, primarily due to strong domestic demand as a result of the government's economic stimulus package. Timber imports are expected to increase by 30.3% in 2010 to 58.9 million m^3 and to continue to increase from 2009 to 2015, primarily due to increasingly strong domestic demand.

The following table sets forth China's imports by country in 2009:

	2009 import volume (million m^3)	**Percentage of total 2009 import volume**
Russia	14.9	52.8%
New Zealand	4.5	15.8%
Papa New Guinea	1.7	6.2%
United States	1.2	4.3%
Gabon	1.1	3.9%
Other	4.8	17.0%
Total imports	28.2	100.0%

Source: CFK Report.

A majority, or 52.8%, of China's log imports are from Russia. Other major countries of log import for China include New Zealand, Papua New Guinea, United States and Gabon. In 2007, the Russian government announced that round log exports would be subject to tax. This tax would be phased in between 2007 and 2011. According to CFK, as substitutes for Russian logs are limited, the Russian log tax is expected to have favorable impact on China's log prices. In addition, it is expected to result in increased demand for Russian lumber from China.

Exports

China's timber exports increased from 12.0 million m^3 in 2005 to 19.5 million m^3 in 2007 reflecting China's competitive position in the production of plywood and reconstituted panels. Timber exports decreased to 14.1 million m^3 in 2009, primarily due to the impact of the global financial crisis on world demand for panel products. Timber exports are expected to increase from 2009 to 2015 due to increasing demand for panels products as the global economy recovers.

The growth of timber exports has been driven by the plywood industry. Plywood exports have increased by about 34% from 1996 to 2009 and make up 56.7% of exports in 2009. This growth is primarily driven by China's low manufacturing cost base, which allows downstream manufacturers to process logs at competitive cost.

Log Prices in China

Overview

Log prices are determined by the demand from the market segments that they supply, domestic log production as well as import and export dynamics of each log type. Log prices also vary across different provinces, depending on the local demand and supply dynamics of each log type.

The following table sets forth the prices of selected softwoods and hardwoods in Yunnan and Sichuan for the periods indicated:

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
						(RMB/m^3)					
Yunnan Pine											
Yunnan	913	1,013	1,075	1,000	1,075	1,100	1,108	1,115	1,123	1,131	1,139
Sichuan.	1,155	1,215	1,290	1,290	1,315	1,300	1,310	1,321	1,331	1,342	1,353
Chinese Fir											
Yunnan	983	975	950	913	940	970	982	993	1,005	1,017	1,030
Sichuan.	1,115	1,175	1,290	1,250	1,310	1,320	1,338	1,357	1,376	1,395	1,415
Birch											
Yunnan	1,750	1,775	1,775	1,750	1,850	1,875	1,890	1,905	1,920	1,936	1,951
Sichuan.	1,525	1,675	1,825	1,835	1,850	1,880	1,895	1,910	1,925	1,941	1,956

Source: CFK Report.

Yunnan pine. Yunnan pine is primarily used locally as a temporary construction material. According to the CFK Report, Yunnan pine prices are expected to increase from 2009 to 2015 due to the positive outlook for timber demand.

Chinese fir. Chinese fir is one of China's more widely used timber species and is used mainly for general purpose construction. Chinese fir log prices were negatively affected by lower timber demand from the onset of the global economic downturn in 2008. According to the CFK Report, Chinese Fir prices are expected to increase from 2009 to 2015 due to the positive outlook for timber demand.

Birch and beech. Birch and other temperate hardwoods are mainly used as a finishing timber in the furniture and construction industry in China. The price of birch fluctuates together with the prices of other hardwoods like beech and oak, which are close substitutes of birch. Because of its hardness, prices of birch and beech are typically considerably higher than softwoods such as Chinese fir and Yunnan pine. According to the CFK Report, the birch log price in Yunnan and Sichuan generally increased from 2005 to 2009 and is expected to continue to increase from 2009 to 2015 due to the positive outlook for timber demand.

Import Prices

The following table sets forth import prices for selected softwoods and hardwoods for the periods indicated:

	2005	2006	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
						(RMB/m^3)					
Softwood											
Russian larch	613	684	777	903	777	789	803	819	835	852	869
New Zealand radiata pine	755	829	916	880	656	874	889	907	925	943	962
Hardwood											
Malaysia	1,186	1,261	1,402	1,468	1,251	1,151	1,185	1,218	1,279	1,340	1,402
Papua New Guinea .	1,209	1,301	1,440	1,356	978	1,081	1,189	1,292	1,341	1,390	1,440
West Africa	2,338	2,395	2,636	2,739	2,105	2,170	2,387	2,452	2,433	2,414	2,395
Equitorial Guinea . .	1,936	1,924	2,064	2,118	1,675	1,774	1,951	2,050	2,073	2,095	2,118

Source: CFK Report.

Logs from West Africa and Equatorial Guinea have higher prices than logs from Malaysia and Papua New Guinea, primarily due to the additional cost required to transport logs from West Africa and Equatorial Guinea compared to from Malaysia and Papua New Guinea, as well as the higher quality of logs in West Africa and Equatorial Guinea compared to Malaysia and Papua New Guinea, which is in turn primarily due to a shorter history of forest exploitation in Africa and Equatorial Guinea compared to Southeast Asian countries.

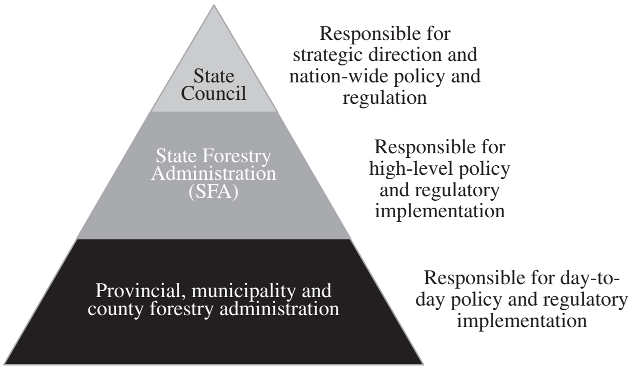
Imported log prices generally increased from 2005 to 2008, primarily due to strong demand and the passing on of higher costs. Imported log prices declined in 2009 compared to 2008 as a result of the global financial crisis. In contrast, domestic log prices remained relatively stable. In CFK's view, this reflected the need for domestic manufacturers to maintain good relationships with their domestic suppliers in order to secure on-going supplies of logs, in a country that is a net wood importer and has a regulated harvest industry.

According to the CFK Report, softwood and hardwood import prices are expected to increase from 2009 to 2015, primarily due to strong domestic timber demand and rising transportation costs.

Regulatory Environment

Regulatory Structure

The following illustrates the PRC government agencies and their respective responsibilities in relation to the forestry industry:



Source: CFK Report.

Forestry activity is controlled by government agencies at state, provincial and county levels. The State Council is responsible for strategic direction and nation-wide policy and regulation. The State Forestry Administration (SFA) is responsible for high-level policy and regulatory implementation. The provincial, municipality and county forestry administrations are responsible for the day-to-day policy and regulatory implementation, such as making decisions on the use of forests, the issuance of logging permits and the allocation of annual harvest quotas.

Harvest Quotas

The PRC government controls the amount of trees logged through the allocation of logging permits. The SFA gives guidance on the volume of trees that can be logged each year, which is further allocated to the respective provinces, and then to the municipalities and the counties within each province, and finally to the harvesting operators in each municipality and county. Allocation is based on a comprehensive assessment of the forest resources in each province. Harvesting operators are given a harvest quota that represents the maximum volume of trees they can log from a forest each year.

The following table sets forth the annual harvest quotas for the top five provinces by harvest quota in China from 2006 to 2010:

Province	Harvest quota (million m^3)
Yunnan	31.5
Fujian	25.8
Guangxi	25.1
Hunan	20.0
Jiangxi	18.2

Source: China's Eleventh Five-Year Plan (2006-2010).

Strong Government Support

There is strong government support for the forestry industry in China. In 2009, the State Council introduced the 2010-2012 Forest Products Industry Revitalization Plan, which aims to provide:

- *Public financial support* through subsidies for forest establishment and management as well as improvements in incentive systems for forest related ecological improvements;

- *Financial service support* through extending of small loans to farmers, extending size and scale of forest insurance subsidies, encouraging selected state-owned and private financial institutions to issue bonds on favourable terms to forest owners and operators, as well as interest rate subsidies on forest loans;

- *Improved forest logging management* through the development and implementation of a simplified and transparent logging management system, aiming to change from current logging quota system to logging registration system within five years; and

- *Other related assistance* including implementing training programs to increase the skilled labor pool and labor productivity as well as developing timber product standards to ensure high quality timber products.

Furthermore, the PRC government encourages the increased commercialization and privatization of forest resources by selling forest resources to commercial forestry organizations. In this regard, it has streamlined the system for registration and transfer of forest use right certificates by setting up the National Forest Use Right Exchange in November 2009. This is intended to aid the development of a secondary market for forest assets.

Competitive Landscape and Barriers of Entry to the Up-stream Forestry Industry in China

The up-stream forestry landscape in China is comprised of a few large scale forest owners and many small to medium scale forest owners. Large scale forest owners are typically able to reduce operating uncertainty by selling logs to large scale downstream forestry industry players under contractual agreements covering volume, quality and price. On the other hand, small to medium scale owners are, however, more susceptible to changes in demand and log prices as they sell logs through regional timber markets that act as clearing houses for timber products.

According to CFK, there are a number of barriers of entry to establishing a large scale forest operation in China, which include:

- Strong understanding of domestic forest resource dynamics, which involves knowledge of the economic value of potential forest resource acquisition targets and how to realize it;

- Strong local and industry relationships, which is important in negotiating and securing logging concessions, negotiating lease terms, and managing a profitable forestry business;

- Economies of scale. Large scale forest operators are able to retain their market position because of their stronger ability to acquire and manage large size forests, better track record and industry reputation as well as lower forest management and overhead costs; and

- Significant initial capital investment.

BUSINESS

Overview

We are a leading forest management and timber harvesting company in China. We focus on the management and sustainable development of forests, up-stream timber harvesting and the sale of logs. We believe we are one of the three largest non-state owned forest operators in China, based on coverage area of owned forest rights.

Currently, all of our forests are located in Southwest China, primarily in Sichuan and Yunnan provinces. As of June 30, 2010, our total forest area was 171,780 hectares and our total forest stock volume was 35.6 million m^3. Of those total amounts, 12,447 hectares and 2.1 million m^3 were located in Sichuan and 159,333 hectares and 33.5 million m^3 were located in Yunnan. We believe our forests have high density, as our average wood stock volume per hectare was approximately 207 m^3 as of June 30, 2010 compared to the PRC national average of 71 m^3 per hectare according to the China Forestry Statistical Yearbook 2007. As of June 30, 2010, approximately 94.1% of our forest resources consisted of naturally regenerated forests, with the remaining approximately 5.9% consisting of plantation forests based on information provided by CFK.

We plan to continue to strategically acquire high quality forest resources in Yunnan province and in additional provinces in Southwest China. To facilitate these acquisitions, we typically enter into framework agreements with local governments and government-associated entities with respect to certain forest areas, which, although generally non-binding, provide a framework for us to enter into definitive acquisition agreements with the many individual owners of the forests within such areas. For example, in February 2010, we signed definitive acquisition agreements to acquire an area of 53,333 hectares in Ninglang county in Yunnan province. We also recently entered into non-binding framework agreements with respect to the purchase of 66,667 hectares in Youyang county (Chongqing municipality), 33,333 hectares in Zhong county (Chongqing municipality and 300,000 hectares in Qiandongnan county (Guizhou province). In addition, we recently began entering into definitive acquisition agreements to purchase forests in Dali county (Yunnan province) and plan to enter into definitive acquisition agreements to purchase additional forests in Ninglang county. See "Recent Developments" and "— Our Forestry Management — Forest Acquisition."

We harvest and sell softwood logs, including Chinese fir and Yunnan pine, and hardwood logs, including beech and birch. We sell our logs primarily to wood processing customers for use primarily in the construction, furniture manufacturing and industrial sectors in China. For the years ended December 31, 2007, 2008, 2009, our log sales volume was approximately 169,800 m^3, 520,407 m^3, and 626,490 m^3, respectively, which represented a compounded annual growth rate, or CAGR, of approximately 92.1% between 2007 and 2009. Our log sales volume increased 8.4% from 321,930 m^3 in the six months ended June 30, 2009 to 349,100 m^3 for the same period in 2010.

We have grown rapidly since we began operating in 2003, the year in which the Chinese government announced a new policy allowing private sector participation in China's forestry industry and development. As a result of new forest acquisitions in recent years, our total forest area increased from 12,453 hectares as of December 31, 2007 to 171,780 hectares as of December 31, 2009, representing a CAGR of 271.4% from 2007 to 2009. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2009 and 2010, our turnover was approximately RMB160.3 million, RMB544.9 million, RMB793.7 million (US$117.0 million), RMB373.2 million and RMB494.3 million (US$72.9 million), respectively. For those same periods, our profit was approximately RMB783.7 million, RMB5,881.8 million, RMB511.6 million (US$75.4 million), RMB432.1 million and RMB429.3 million (US$63.3 million), respectively.

The amounts of and fluctuations in our net profits have been and will continue to be significantly affected by our recognition policy, which we have adopted pursuant to International Accounting Standard 41, *Agriculture*, or IAS 41, regarding changes in the fair value of plantation assets (which are generally the trees in our forests but which do not include the underlying land). Under our policy, the fair value of plantation assets less costs to sell of such plantation assets is reassessed at each balance sheet date and any change in such amount is recorded as an unrealized gain or loss on our consolidated income statements. In addition, our policy adopted pursuant to IAS 41 also requires us to record the reversal of fair value of plantation assets upon logging and sales of the plantation assets. Such unrealized gains or losses do not generate actual cash inflow or outflow. For the years ended December 31, 2007, 2008 and 2009 and for the six months ended June 30, 2010, our unrealized gains arising from changes in fair value of plantation assets less costs to sell were RMB798.5 million, RMB6,024.4 million, RMB681.3 million (US$100.5 million) and RMB470.6 million (US$69.4 million), respectively, accounting for approximately 101.9%, 102.4%, 133.2% and 109.6%, respectively, of our profit for the corresponding periods. In addition, the reversal of fair value of plantation assets upon logging and sales of our plantation assets was RMB121.1 million, RMB384.9 million, RMB608.0 million (US$89.7 million) and RMB362.8 million (US$53.5 million) for those same periods, respectively, accounting for approximately 15.5%, 6.5%, 118.8% and 84.5% of our net profit, respectively.

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our adjusted profit was approximately RMB106.4 million, RMB242.3 million, RMB438.3 million (US$64.6 million) and RMB321.5 million (US$47.4 million), respectively. See "Summary Historical Consolidated Financial Information and Operating Data — Consolidated Income Statements" at footnote (6).

In December 2009, we completed our initial public offering with our shares listed on the Hong Kong Stock Exchange.

Our Competitive Strengths

We believe the following strengths enable us to compete effectively:

Extensive and strategically located high quality forest resources

We own large, sustainable and high quality forest resources. Our forests covered a gross area of approximately 171,780 hectares as of June 30, 2010, with an average ownership term of more than 20 years. Based on an assessment by CFK, as of June 30, 2010 our forests had an average density (in terms of wood stock volume per hectare) of 207 m^3 per hectare, compared to the PRC national average wood yield of 71 m^3 per hectare according to the China Forestry Statistical Yearbook 2007. In addition, approximately 83% of our forests are immediately harvestable, while less than 20% of China's forests are immediately harvestable, by forest area, according to CFK.

Our forests are strategically located in Yunnan and Sichuan Provinces, in Southwest China. According to the China Forestry Statistical Yearbook 2007, these two provinces possessed approximately 15.6 million hectares and 14.6 million hectares of forests, respectively, and ranked third and fourth largest, respectively, in terms of forest area. As compared to some other forest regions in China, Southwest China's weather conditions are more favorable for the fast growth of trees, supporting higher density forests and faster tree turnover rates. Our strategic footprint in Yunnan and Sichuan also helps us gain substantial knowledge of and experience with local forest conditions, regulatory requirements and business partners, facilitating our further expansion in these areas of rich forest resources. Furthermore, our forests are primarily located in regions with relatively easy road or railway access, which reduces transportation costs for logs and increases their price competitiveness.

We also possess commercially valuable tree species in our forests. As of June 30, 2010, softwood trees, primarily Chinese fir and Yunnan pine, accounted for approximately 76.1% of our forest area. These softwood logs are highly durable, easily worked, resistant to termites and other insects, and are widely used for making wood panels, plywood, furniture and pulp. As of June 30, 2010, approximately 23.6% of our forests were covered by hardwood trees, including primarily birch and beech. The remaining forests are covered by a mix of fir, cedar, birch, pine and alder. Hardwood prices are typically higher than softwood prices.

Strong track record of cost-effective forest acquisitions

We were one of the first enterprises to take advantage of the PRC government's policy directive announced in 2003 allowing private sector participation in China's forestry development. Since then, we have grown substantially through cost-effective acquisitions of high quality forests and integration of the acquired forests into our operations. We have developed and refined an effective approach toward forest acquisitions. As a large amount of China's forests are either individually owned or collectively owned, we generally negotiate with the local government relating to a potential acquisition, which can aggregate large numbers of individually and collectively owned forest parcels and whose decision is generally accepted by individual forest owners. As a result of these acquisitions, our forest area grew from 12,453 hectares as of December 31, 2007 to 171,780 hectares as of June 30, 2010. In addition, we have entered into framework agreements with respect to further forest asset acquisitions in Yunnan province, Chongqing municipality and Guizhou province. See "Recent Developments" and "— Our Foresty Management — Forest Acquisition."

We believe we have established a solid industry reputation in terms of environmentally sensible forest management, developed good relationships with local government authorities, and generally offer employment opportunities to the local forest farmers, all of which greatly facilitate our acquisition efforts. We have also established a procedure to ensure the quality of the forests we acquire, including on-site inspections of target forests by our dedicated forest team and obtaining independent third party forestry valuations prior to an acquisition.

Focused and highly profitable business model

We focus our business on up-stream forest management and sales of logs. Due to China's shortfall in log supply and strict controls over log harvesting, we believe that the forest operating business typically commands a higher profit margin compared to the downstream wood processing business.

Our business model has many administrative and cost advantages. We typically outsource harvesting activities to third parties, which reduces our administrative requirements and helps us to better manage our costs. Our customers are responsible for the transportation of the harvested logs from our forests, which reduces our need for labor and transportation. Our harvesting operations require a low level of working capital. We generally only harvest logs after receiving customer orders and customers are generally required to make full payment in cash before our logs are delivered. Consequently, we are able to maintain a zero or low level of inventory and trade receivables, which reduces our working capital requirements and strengthens our cash flows. Additionally, unlike some of our competitors who primarily rely on leased forest land, we typically acquire forests together with forest use rights, which ensures the long-term operation of our forests and eliminates annual lease payments.

Low harvest rate supporting accelerated production expansion

Primarily due to the effect of our substantial forest acquisitions, for the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our overall harvest rates were approximately 7.6%, 1.5%, 1.8% and 1.0%, respectively. We believe there is ample room for us to increase our annual harvesting amount before reaching the annual logging quotas imposed by the PRC government generally set as guidelines by the Sichuan and Yunnan forestry bureaus. As a result, even in the absence of further forest acquisitions, we believe we are able to continue our operations and increase our sales by relying on our existing forests.

Sustainable, socially responsible and environmentally friendly forest management

We have an operating system in place for managing and operating our forests, and the harvesting and sales of our products. Our information system enables us to record and monitor logging, tree replanting, changes in forest stock volume, forestry operations and forest health. To ensure the quality of our products and the sustainability of our forest resources, we strive to establish a set of harvesting rules and standards to comply with our logging permits and the relevant harvesting regulations set by the PRC Forestry Law and relevant government regulations. We typically only harvest trees meeting our specified requirements of stem diameter, stem length and age. To ensure the long-term supply of logs from our forest resources, we typically replant trees at the rate of at least 110% after logging, exceeding the 100% minimum regulatory requirement. Our survival rate in the year of replanting has generally been over 90%, exceeding the 85% survival rate required by government regulations.

Our standard of forestry operations are recognized by awards and certifications, including the Authentication Certificate of Quality Management System (GB/T19001-2000 idt ISO9001:2000), Environmental Management System (GB/T24001-2004 / ISO14001:2004) and Occupational Health and Safety Management System (GB/T28001-2001) issued by Beijing NGV Certification Centre, an approved accreditation body in China. We believe our forest management and operational practices have met international standards, and therefore we are in the process of applying for the Forest Stewardship Council certificate.

We believe we are a socially responsible and environmentally friendly company. We believe in striking a balance between the increasing demand for forest resources and the preservation of forest ecology. Our environmentally friendly approach distinguishes us from many other forestry companies and gives us a competitive advantage as we expand our operations into new areas and acquire new forests.

Experienced management team

We have developed extensive local forestry and management expertise in the China market. Our chairman and founder, Mr. Li Kwok Cheong, has substantial experience in developing and growing businesses in China. His business insights and extensive business network enabled him to be one of the first private investors in China's forestry industry in 2003, when regulatory changes allowed for such private investment. Our executive director and chief executive officer, Mr. Li Han Chun, has over ten years of management experience, including six years with our company. In addition, both Mr. Li Kwok Cheong and Mr. Li Han Chun are both council members of the CCPEF, which enable them to participate in national level discussions about the development of the forestry industry in China and gain industry insight. Their membership also greatly enhances our reputation in the industry.

Our Strategy

Our aim is to build on our strengths to become a leading player in the privatization process of the forest industry and a leading integrated forest resources company in the Asia Pacific region. Key elements of our strategy are as follows:

Continue to acquire high quality forest resources cost effectively

As an up-stream forest management and timber harvesting company, we believe that the possession of a large area of high quality forest resources is the most important factor for our expansion and long-term success. We plan to continue to acquire high quality forest resources cost effectively. Due to the relatively high quality of forests in Yunnan and Sichuan as compared to the forests in many other regions in China and our experience in forest operations in these two provinces, we will continue to look for suitable forest acquisition opportunities in Yunnan and Sichuan. For example, we entered into definitive acquisition agreements to acquire 53,333 hectares of forests in February 2010, and anticipate receiving forest use rights and completing these acquisitions by the end of 2010. We are also in the process of entering into individual acquisition agreements in Dali county in Yunnan province.

In addition, we intend to replicate our experience in Yunnan and Sichuan and expand our forest resources to Guizhou province and Chongqing municipality in Southwest China. We entered into a non-binding framework agreement in June 2010 with the government of Zhong county of Chongqing municipality and a downstream wood-processing company, covering a forest area of approximately 33,333 hectares. We expect to complete the acquisition by the end of 2010. In addition, in Septmeber 2010, we entered into a non-binding framework agreement with a government entity to acquire approximately 300,000 hectares forests in Guizhou and in October 2010, we entered into a non-binding framework agreement with a government entity in Youyang County, Chongqing municipality.

To further increase the attractiveness of our acquisition offers to local governments, we also plan to team up with downstream business partners in the acquisitions. For example, the framework agreement for the forest acquisitions in Zhong county of Chongqing municipality is with both a local government and a downstream wood-processing company. Under this framework agreement, the wood-processing company is expected to set up a factory in the vicinity of the forest, using the logs harvested from the forest for the production of their word products. We believe such partnerships are expected to increase local employment and will be favored by local governments, giving us a competitive advantage.

Increase annual harvest rate

Local forestry bureaus in Yunnan and Sichuan typically have annual logging quotas at 10% of the stock volume of the forests at the beginning of each year. We believe we have substantial room to increase our overall harvesting rate. Our harvest rates of our Sichuan forests were 7.5%, 6.4%, 6.9% and 2.6% in 2007, 2008, 2009 and first half of 2010, respectively. Our harvest rates of our Yunnan forests were 2.0%, 1.4% and 0.9% in 2008, 2009 and first half of 2010, respectively. We intend to gradually increase the harvest rate in newly-acquired forests in our Yunnan forests to enable us to increase our log sales by investing in the construction of roads to facilitate tree harvesting and transportation. Furthermore, we intend to further expand our sales and marketing team to increase the volume of customer orders to support our planned increase in annual harvest rates.

Establish long-term sales and cooperation arrangements with large customers

In the past, our sales focused on relatively small, local customers. As we increase our sales volume, we intend to increase sales of our logs to large customers and enter into long-term sales arrangements. For example, in August 2010, we entered into a strategic partnership cooperation agreement with China National Light Industrial Products Import and Export Corp., pursuant to which we agreed to provide it with at least 1 million m^3 of logs between July 1, 2010 and June 30, 2015. In June 2010, we entered into a long-term sales framework arrangement with China Packaging Group Company Limited, pursuant to which we agreed to provide it with at least 1.5 million m^3 of logs over the next five years. Although these arrangements are not purchase commitments, we believe long-term sales and cooperation arrangements with established, large customers improve the stability and predictability of our sales. We believe long-term sales arrangements with established, large customers improves the stability and predictability of our sales.

Further strengthen our overall management and information systems

We believe a quality management team is critical for our continued success. We plan to further enhance the breadth and depth of our management by recruiting additional quality management personnel with experience in and knowledge of the forestry industry.

In addition, we intend to engage a third party information technology company to help us enhance our forest management information system to help us achieve more sophisticated planning and greater operational control of our forests. This system would allow us to monitor the growth conditions, such as pest and fire conditions, of our forests in real time remotely. This system will be able to provide us data to enable us to analyze and better plan our harvesting activities, including the optimal locations for each harvest. Furthermore, we anticipate such a system will facilitate our sales and marketing activities as our customers would be able to view the conditions of our forest in real time remotely from our offices, eliminating their need to travel to our forests in person for inspections.

Continue practicing sustainable forest management through research and development and adhering to high environmental standards

We believe that sound forest management practices will ensure the sustainable development of forest resources and provide greater predictability in plantation management. We plan to invest in research and development on sustainable forest management, improvement of tree saplings, growth monitoring and other silvicultural operations. We intend to conduct our research primarily through collaboration with various research institutions. We also plan to establish a research center during 2011, which will conduct research on advanced forestry management technology and practices, development of new varieties of tree saplings that have a faster growth rate, as well as other technologies to increase tree growth rates. We believe advances in such areas will enable us to more efficiently manage and operate our forest resources, and improve the profitability from our forests.

In addition, we will continue to strive to exceed national standards in terms of annual harvest rates, replantation rates and survival rates of saplings to minimize the environmental impact of our harvesting. We intend to continue to follow best practices for our existing forests as well as any additional forests we acquire in the future.

Continue to focus on up-stream forest management and log sales, selectively expand into downstream opportunities

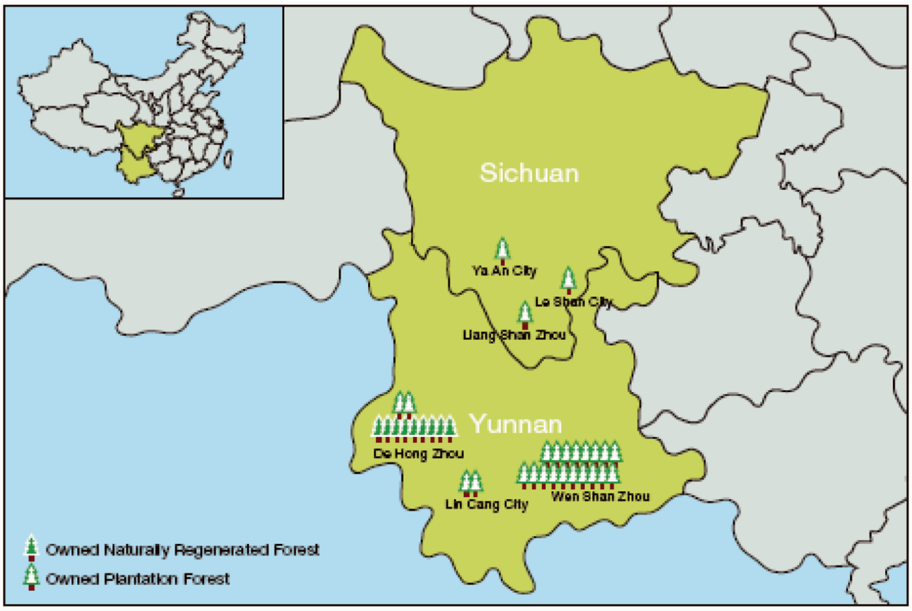
We intend to continue to focus on our core competencies in up-stream forest management and timber harvesting. We believe that supply shortfall of logs in China will continue in the near future, providing a favorable business environment for our up-stream focused operations. We also believe that the accommodating government policies, such as tax benefits and other forms of government support, will continue to be favorable in the forestry industry, in particular with regard to the up-stream business in which we operate.

To supplement our up-stream business, we plan to selectively expand into certain downstream opportunities, such as the initial shearing and processing of our logs, which could result in increased sales prices of our products and improvement of our profitability. For example, we entered into a non-binding framework agreement in June 2010 with the government of Zhong county of Chongqing municipality and a downstream wood-processing company covering a forest area of approximately 33,333 hectares. We are also exploring opportunities that can utilize certain side products of our up-stream business. We believe such business collaborations could further capture the value of our forests and also result in the improvement of our profitability.

Our Forests

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

The following map illustrates the locations of most of our current forests.



As of June 30, 2010, approximately 94.1% of our forest resources consisted of naturally regenerated forests, with the remaining approximately 5.9% consisting of plantation forest based on information provided by CFK. All of our forests in Sichuan were naturally regenerated forests. In Yunnan, 94% of our 159,333 hectares of total forest stock volume was naturally regenerated forests with the remainder consisting of plantation forests. Over 83% of our forests are immediately harvestable.

Our major tree species is Chinese fir (*Cunninghamia lanceolata*), which accounted for approximately 71.1% of our forest area as of June 30, 2010. Chinese fir is a softwood tree, and its wood is highly durable, easily worked, resistant to insects and termites, and is commercially and widely used for making wood panels, plywood, furniture and pulp. In addition, as of June 30, 2010, approximately 17.7% of our total forest area was planted with primarily birch (*Betula alnoides*), a hardwood tree, which produces strong and durable wood, and is used for producing a variety of solid wood products such as wood panels, furniture, flooring and other construction materials. Due to its superior wood properties, birch log is generally more expensive than softwood log. Our remaining forest area as of June 30, 2010 is planted with beech (approximately 5.9%), pine (approximately 5.0%) and a mix of fir, cedar, birch, pine and alder (collectively, approximately 0.3%).

The following table sets forth a summary of our owned forest resources as of June 30, 2010, by year of forest establishment/formation.

Year of forest establishment/formation	Total Area (hectares)
Sichuan Forests	
1983	267
1984	910
1985	737
1986	2,683
1987	7,850
Total	12,447
Yunnan Luxi/Shuangjiang Forest	
1947-1966	5,781
1967-1976	1,586
1977-1988	1,014
1989	286
Up to 1982	35,466
After 1982	15,200
Sub-Total	**59,333**
Yunnan Wenshan Forest	
1986-1991	100,000
All Total	**171,780**

Forests in Sichuan Province

Our forests in Sichuan province are all naturally regenerated forests. As of June 30, 2010, they covered a gross area of approximately 12,447 hectares. Approximately 96% of such area is planted with Chinese fir *(Cunninghamia lanceolata)*, and the remaining area is covered with a mixture of species including cedar (*Cryptomeria japonica*), Yunnan pine (*Pinus yunnanensis*), birch (*Betula spp.*) and alder (*Alnus glutinosa*).

All our forests in Sichuan are at least 20 years old and were already immediately harvestable when they were acquired by us. As of June 30, 2010, our Sichuan forests possessed an aggregate forest stock volume of approximately 2.1 million m^3, and as of June 30, 2010, were valued at RMB1,080 million by CFK, our independent forestry valuer, in compliance with IAS 41.

The following table sets forth the location, area, remaining term and average price per hectare of our forests in Sichuan as of June 30, 2010.

	Forest location	Area (hectares)	Remaining term (years)	Purchase price[(2)] (RMB)	Average price per hectares (RMB/hectares)
	Sichuan Forests				
1	Xiao gou 6 zu, Gaoshan village, Maoping, E'bian	80	5	599,500	7,494
2	Watuo village, Bapu, Meigu	187	26	1,121,600	5,998
3	Watuo village, Bapu, Meigu	88	26	528,000	6,000
4	Yingxin village,Heping Yizu xiang, Jin He Kou district, Leshan	17	11	130,624	7,684
5	Liaogongwa zu, Qunli village, Yiping xiang, E'bian	45	24	354,640	7,881
6	Wannian village, Shizi xiang, Yingjing, Ya'an	104	22	795,600	7,650
7	Taiping village, Honghua xiang, E'bian	145	26	1,111,800	7,668
8	Dagang village, Jinhe zhen, Jinhekou district, Leshan	511	26	3,679,680	7,201
9	Jifeng village, Jinhe zhen, Jinhekou district, Leshan	333	26	2,400,000	7,207
10	Wannian village, Shizi xiang, Yingjing, Ya'an	65	26	509,600	7,840
11	Sale village, Bapu zhen, Meigu	338	26	4,008,460	11,859
12	Gaoshan village, Maoping zhen, E'bian	150	25	1,909,440	12,730
13	Wannian village, Longcanggou xiang, Yingjing, Ya'an	143	25	1,827,500	12,780
14	Taiping village, Honghua xiang, E'bian	137	25	1,742,500	12,719
15	Waluo village, Baiyang xiang, E'bian	107	25	1,370,200	12,806
16	Wannian village, Longcanggou xiang, Yingjing, Ya'an	104	26	1,326,000	12,750
17	Xiangbi village, Gong'an xiang, Jinkouhe	100	26	1,320,000	13,200
18	Meizikan village, Yanfeng xiang, Mabian	69	26	900,640	13,053
19	Qunli village, Yiping xiang, E'bian	69	26	897,870	13,013
20	Qunli village, Yiping xiang, E'bian	833	26	11,375,000	13,655
21	Jifeng village, Jinhe zhen, Jinhekou district, Leshan	970	26	13,240,500	13,650
22	Meizikan village, Yanfeng xiang, Mabian	600	26	8,550,000	14,250
23	Xiangbi village, Gong'an xiang, Jinkouhe	779	26	11,131,993	14,290
24	Wannian village, Longcanggou xiang, Yingjing, Ya'an	2,333	27	34,125,000	14,627

	Forest location	Area (hectares)	Remaining term (years)	Purchase price[(2)] (RMB)	Average price per hectares (RMB/hectares)
25	Yingxin village, Heping Yizu xiang, Jinhekou district, Leshan	2,667	27	39,200,000	14,698
26	Qunli village, Yipingxiang, E'bian	1,386	27	20,787,400	14,998
27	Heping village, Xinjian xiang, Yingjing	85	61	1,272,600	14,972
	All Total	12,447[(1)]		166,216,147	13,354

(1) The individual forest areas have been rounded to whole numbers, and therefore the sum is slightly different from the total figure of 12,447 as set out in the subtotal row.

(2) Purchase prices reflect those in connection with the forest acquisitions by Beijing Zhaolin from unaffiliated third parties.

Forests in Yunnan Province

Our forests in Yunnan province are situated in Shuangjiang of Lin Cang City, Luxi of De Hong zhou and Wen Shan zhou. The forest in Shuangjiang and Wen Shan zhou consists entirely of plantation forests, and the forest in Luxi consists of approximately 94% naturally regenerated forest and approximately 6% plantation forests by area. According to CFK, as of June 30, 2010, our Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest covered a gross area of approximately 59,333 hectares and 100,000 hectares, respectively, possessing a forest stock volume of approximately 13.4 million m^3 and 20.1 million m^3 respectively, and were valued at RMB4,299 million and RMB2,496 million respectively.

The main species of trees in our Yunnan forests is Chinese fir (*Cunninghamia lanceolata*), occupying approximately 69.1% of the area. Birch (*Betula alnoides*), beech (*Faugs spp.*), and Yunnan Pine (*Pinus yunnanensis*) make up the balance which represent approximately 19.1%, 6.4% and 5.4% of the area, respectively.

The following table sets forth the location, area, remaining term and average price per hectare of our forests in Yunnan as of June 30, 2010.

	Forest location	Area (hectares)	Remaining terms (years)	Purchase price (RMB)	Average price per hectares (RMB/hectares)
	Yunnan Forests				
	Shuangjiang, Lin Cang City				
1	Mangan Shuangjiang county	8,667	27	52,000,000	6,000
	Luxi, De Hong Zhou				
2	Mangxuan village, Mengyang xiang, Luxi county	13,333	27	86,000,000	6,450
3	Gongling village, Zhefang xiang, Luxi County	101	27	699,752	6,928
4	Bangdian village, Santaishan xiang, Luxi county	6,000	27	39,600,000	6,600

	Forest location	Area (hectares)	Remaining terms (years)	Purchase price (RMB)	Average price per hectares (RMB/hectares)
5	Pingliangzi village, Fengping zhen. Luxi County	6,000	27	39,600,000	6,600
6	Wandan village, Wuchalu xiang, Luxi County	6,000	27	40,500,000	6,750
7	Dazhupo village, Zhongshan xiang, Luxi County	9,504	27	61,299,768	6,450
8	Dazhupo village, Zhongshan xiang, Luxi County	1,840	27	11,868,000	6,450
9	Gongling village, Zhefang xiang, Luxi County	585	27	3,860,824	6,600
10	Wandan village, Wuchalu xiang, Luxi county	1,247	27	8,415,000	6,748
11	Gongling village, Zhefang xiang, Luxi County	56	27	389,436	6,954
12	Gongling village, Zhefang xiang, Luxi County	6,000	27	40,500,000	6,750
	Total	**59,333**(1)		**384,732,780**	**6,484**
	Yunnan (Wenshan) Forest				
1	Ma Guan	34,667	28	208,000,000	6,000
2	Ma Li Po	23,333	28	147,000,000	6,300
3	Xi Chou	16,667	28	102,500,000	6,150
4	Fu Ning	14,667	28	90,200,000	6,150
5	Yan Shan	10,667	28	64,000,000	6,000
6	**Total**	**100,000**		**611,700,000**	**6,117**

(1) The individual forest area has been rounded to whole numbers, and therefore the sum is slightly different from the total figure of 59,333 as set out in the subtotal row.

(2) The individual forest area has been rounded to whole numbers, and therefore the sum is slightly different from the total figure of 100,000 as set out in the subject row.

Our Forestry Management

We are committed to the sustainable development of forest resources. We seek to regenerate our forest resources by planting more trees than we harvest.

Forest Acquisition

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

We use the following criteria to help us determine if a forest resource is suitable for acquisition:

- there should not be less than 90 trees per mu;
- the trees should have an average diameter of not less than 14 centimeters (measured 1.3 meters above ground level);
- the forest stock volume based upon the government survey should be not less than 225 m^3 per hectare;
- the forest use right ownership should be clear; and
- the forest should be easily accessible.

For each of our Sichuan forests, PRC forestry valuers were engaged to issue a valuation report before each forest acquisition. The PRC forestry valuers inspected the forest and prepared their valuation report according to PRC valuation principles. For our Yunnan Luxi/Shuangjiang Forest and Yunnan Wenshan Forest, we had engaged CFK to issue valuation reports. We have also engaged CFK to issue a valuation report in connection with our acquisition of the Ninglang Forest.

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

Acquisition of Sichuan Forests

Between 2003 and 2007, we acquired a total area of approximately 12,447 hectares of forests in Sichuan. For each acquisition, we entered into a forest land/trees transfer agreement with the relevant owner of the forest who agreed to transfer the forest to us.

Most of our forests in Sichuan have been registered and have the relevant forest use right certificates. Our forest use right certificates for these forests have an average term of not less than 20 years. Approximately 98% of the area of our Sichuan forests have forest use right certificates with expiration dates of 2036 or later.

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

For the year ended December 31, 2007, we acquired plantation forests of approximately 7,850 hectares, all of which are located in Sichuan, and the amount paid for the acquisition was approximately RMB115.1 million. Since January 1, 2008, we have not acquired any forests in Sichuan.

Acquisition of Yunnan Forests

Yunnan Luxi/Shuangjiang Forest

In March 2008, we acquired the Yunnan Luxi/Shuangjiang Forest. This forest has a total area of approximately 59,333 hectares, of which, approximately 8,667 hectares are located in Shuangjiang, Lin Cang City and the remaining approximately 50,666 hectares are in Luxi, De Hong Zhou. This forest had a forest stock volume of approximately 13.4 million m^3 based on an assessment as of June 30, 2010. The total consideration for this acquisition was approximately RMB384.7 million.

In connection with the forests in Shuangjiang, Lin Cang City, we entered into a pre-purchase agreement on December 12, 2007 with an unaffiliated third party to secure our exclusive right to acquire these forests from it. Pursuant to this pre-purchase agreement, we paid RMB5 million as a deposit, in return for its agreement not to transfer these forests to any other person. In March and April 2008, we entered into a formal forest land transfer agreement and supplemental agreements with the seller. Pursuant to these agreements, we agreed to purchase these forests for a total consideration of RMB52 million. On March 21, 2008, we obtained the forest use right certificate in our own name for these forests.

In connection with the forests in Luxi, De Hong Zhou, we entered into formal forest land transfer agreements and supplemental agreements with unaffiliated third parties to acquire these forests. The total consideration for these forests was RMB332.7 million. In March 2008, we obtained all the relevant forest use right certificates in our own name for these forests.

Yunan Wenshan Forest

In July 2008, we entered into forest land transfer agreements with unaffiliated third parties to acquire the Yunnan Wenshan Forest. The total purchase price for this forest was RMB611.7 million. Pursuant to these transfer agreements, we paid the first installment of 10% of the total purchase price within one month from the date of the agreements. The second installment of 30% of the total purchase price was paid within six months after our dedicated forest team completed their due diligence. The balance of 60% of the total purchase price, which is RMB367.0 million, was paidwithin six months after the professional party that we engaged completed its verification of our due diligence results. In July and August 2008, we obtained all the relevant forest use right certificates in our name for this forest.

For all of our Yunnan forests above, we have obtained the relevant forest use right certificates and own the trees, the rights to use the forest land and the rights to use the trees. We currently are the registered owner of the forest rights to this forest and may use its resources as needed. Our rights in both the Yunnan Luxi/Shuangjiang Forest and the Wenshan Forest will expire in 2038.

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

On-going Acquisitions

Ninglang County, Yunnan Province

In September 2009, we signed a framework agreement to acquire an area of 53,333 hectares in Ninglang county in Yunnan province, and entered into definitive acquisition agreements to acquire all 53,333 hectares in February 2010. We have not yet made any payment under the framework agreement or definitive acquisition agreements and have not received forest use rights to the forests. We expect to complete the acquisition and begin harvesting in Ninglang before the end of 2010.

Although we have not yet considered or included the Ninglang forest as part of our total forest area, CFK conducted a valuation as of June 30, 2010 of the Ninglang forests that we are in the process of obtaining forest use rights pursuant to the February 2010 definitive acquisition agreements.

Zhong County, Chongqing Municipality

We entered into a non-binding framework agreement in June 2010 with the government of Zhong county of Chongqing municipality and a downstream wood-processing company, covering a forest area of approximately 33,333 hectares. Pursuant to the framework agreement, we will acquire the forest land use rights, harvest logs and provide them to the downstream wood-processing company to manufacture various wood processing products. We are conducting our due diligence of the forests and intend to enter into definitive acquisition agreements and complete the acquisition by the end of 2010.

The total proposed investment under the framework agreement is US$180 million, among which the downstream wood-processing company's investment is US$30 million and our proposed investment amount is US$150 million. There are two phases of the project. In the first phase, the downstream wood-processing company's proposed investment is US$10 million while our proposed investment is US$30 million. The second phase is expected to be constructed within three years, during which the downstream wood-processing company's proposed investment is US$20 million while our proposed investment is US$120 million.

In addition, subsequent to June 30, 2010, we have entered into several additional framework agreements, letters of intent and definitive acquisition agreements in relation to acquisition of forests resources. See "Recent Developments".

Forestry Management

Our management formulates our environmental protection policies and measures and oversees their implementation, and our dedicated forest team and resources management department implement such measures. Our dedicated forest team, which regularly monitors our forest workers and the condition of our forests, is separate from our resources management department which manages our forest workers. As of June 30, 2010, there were 60 people in our forest management team and we had 189 forest workers.

To record and monitor the health and growth of our trees, we have established a recording system. Each day, our forest workers inspect the forest for which they are responsible, checking conditions and for disease, pests and fire danger, recording the results and submitting quarterly reports. At the end of each year, we also engage an independent forestry valuer to conduct a valuation of our forests.

Our recording and reporting system for monitoring our forests and operations involves verification by our dedicated forest team and cross-checking against the independent valuation report issued at the end of each year.

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

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

To maintain our forests in good condition, we have also established a set of procedures for pest control and fire prevention. Our local forest workers who are supervised by the dedicated forest team, regularly visits our forests to monitor and report the conditions of our forest and to ensure regulatory compliance and compliance with our procedures for pest control and fire prevention.

Harvesting

Harvesting Plan

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

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

We engage the villages for the harvesting of our Sichuan forests and professional harvesting teams for the harvesting of our Yunnan forests. Our forest workers and dedicated forest team members monitor the activity of harvesting on site and record details of plantation assets (such as the date and volume of logging) upon logging and sales to make sure the trees we harvested have met our harvesting standards.

Harvesting Activities

Upon receiving an order from our customers, we will select an appropriate forest close to our customers and apply for logging permits from the relevant local forestry bureau specifically for that order. See "— Our Forestry Management — Permits and Quotas."

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

For our forests in Sichuan, we engage the villages, which are close to the relevant forest where harvesting is to be performed, for harvesting, and enter into framework harvesting agreements with the relevant village committees, which manage public affairs of the villages. Those villages are independent third parties consisting of people who are ordinary farmers with the necessary skills and equipment for harvesting logs in forests.

For our Yunnan forests, we engage professional harvesting teams for harvesting. The professional teams are typically private enterprises in Yunnan which provide harvesting services. They are equipped with necessary tools for logging, such as saws, chain saws, cranes for lifting timber, interlocking skidder for forest harvesting and logs peeling machines. If the forest location makes the harvesting difficult, the professional team may set up the cableways and chutes to facilitate transport of timber.

According to our Sichuan harvesting agreements and Yunnan harvesting agreements, the villages or the professional harvesting teams are required to comply with the national forestry harvesting safety rules and regulations, and are responsible for equipping themselves for logging when performing such services.

We undertake the following measures to monitor our harvesting activities and the quality of our harvest:

(a) all harvesting activities with a harvesting plan must be approved in advance by an administration officer;

(b) all harvesting personnel must strictly follow our harvesting rules and standards; and

(c) in the process of harvesting, our forest workers and the members of our dedicated forest team will be on site to monitor the logging and record details of harvesting (including the date, area and location of logging, and the volume of timber harvested), to ensure the quantity of timber logged does not exceed that specified in the logging permit and the harvesting complies with other requirements as set out in the logging permit and our own harvesting requirements, including the quality of the harvest.

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

We review our harvesting rate each year and determine it after taking into account our forest reserve, the growth cycle of different species of trees, the impact to the sustainability of forests, the allowable logging amount and the appropriateness of logging for specific forests (including their accessibility). At any time of a year, we will not harvest trees more than once on the same spot.

Permits and Quotas

Under the PRC Forestry Law, the PRC government strictly implements a quota system for logging of forest wood to ensure that the amount of consumption of timber remains less than the amount of a forest's growth. See "Government Regulation".

Our PRC legal advisers have advised us that we are only required to comply with the limits on harvesting specified in the logging permits. We obtain approval for the amount we harvest prior to each logging. In practice, the local forestry bureaus in Sichuan and Yunnan indicate that our maximum logging amount each year should not exceed 10% of the total forest stock volume of all our forests and therefore, our internal guidelines provide for this limitation. Upon receiving an order from our customers, our resources management department will check (i) whether the aforesaid 10% annual logging cap has been utilized; and (ii) the volume of logs in the order as compared to any un-utilized logging cap, to ensure our compliance with the anticipated annual logging cap, and the plans are then reviewed by an administration officer of us. After selecting the appropriate forest for logging, we apply for the logging permit with the local forestry bureau.

Based on our experience, it usually takes approximately one week to obtain a logging permit. As of June 30, 2010, we have not had any applications for logging permits rejected.

Forest Maintenance Fee

When applying for the logging permits, we are required to pay a forest maintenance fee which is contributed to a forest maintenance fund established by the PRC government. The rate of the forest maintenance fee is determined by the local forestry bureau. According to the Administrative Rules for Levy and Use of Forest Maintenance Fund jointly promulgated by the Ministry of Finance and the SFA in May 2009, the forest maintenance fund shall not exceed 10% of the revenue from sales of the forestry products, and detailed standards must be stipulated by provincial level governments after considering the affordability of the forestry production enterprises or individuals. Currently, this rate is set at RMB55 per m^3 by the Sichuan forestry bureau and RMB45 per m^3 by the Yunnan forestry bureau.

The forest maintenance fee paid or payable by us during each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 was RMB9.3 million, RMB25.2 million, RMB29.7 million (US$4.4 million) and RMB16.3 million (US$2.4 million), respectively.

Replanting

To ensure the sustainability of our forests, we plant new trees to replace the ones that we cut down. We have established a set of rules for replanting, including the following:

- the replanting must comply with the PRC Forestry Law and the relevant regulations;
- the replanting must be conducted during or after the year of harvesting; and
- the survival rate in the year of planting must be not less than 85% and the survival rate after three years of planting must be not less than 80%.

In our Sichuan forests, we usually replant saplings between March and April, which according to our experience, is the optimum season for planting saplings. In Yunnan, we replant saplings throughout the year as the season for planting saplings is all year round. We will select, within the same piece of forest where trees have been harvested, the suitable replanting areas which can provide enough space and light for the growth of saplings. The trees we replant are generally of the same species as those we harvest. After planting saplings, we will monitor their growth and do grooming when needed.

All the saplings we use are provided by the government in return for our payment of the forest maintenance fee. The saplings first planted by the villagers, before we acquired the relevant forests, were also provided by the government for free. We apply for saplings from the local forestry bureau about one or two months before replanting (which means, in Sichuan, in January or February). The local forestry bureau has maintained records of our harvesting activities and by reference to these records, they will determine whether to approve the amount of saplings applied for. After we have obtained the approval of the amount of saplings, which according to our experience typically takes about one week, we collect the saplings from the designated locations. We then organize the replanting. We understand that the local forestry bureaus keep records of our application for saplings and the amount of saplings granted to us.

According to the PRC Forestry Law, new trees are required to be replanted when trees are cut and the number of or the area covered by new trees must not be less than those for the harvested trees. As part of our commitment to sustainable forest management, we strive to exceed this minimum legal requirement by replanting trees in our forests at the rate of at least 110% (that is, for every 100 trees we cut, we will replant at least 110 new trees within a year after the month of actual logging). For each of the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our replanting rate was approximately 112%, 112%, 107% and 112% respectively.

Furthermore, the PRC governmental regulations require the survival rate of saplings in the year of planting to be not less than 85% and the government authorities regularly visit forests to check the survival rate of saplings. As part of our commitment to sustainable forestry management, we have outperformed the minimum legal requirement by having achieved an average of at least 90% survival rate in the years of planting. The PRC government examines our replanting activities annually and issues a written confirmation after examination and investigation.

To optimize the yields on our planted trees, we engage in a variety of plantation management practices such as follows:

- choosing the sites for planting trees that are typically close to the place of logging to ensure trees are properly spaced;
- planting at optimal times of the year with proper spacing to enhance the survival rate;
- taking fire prevention and pest control measures; and
- monitoring the plantation sites daily by our forest workers and quarterly by our dedicated forest team.

The above practices are designed to produce fast growing, high quality sustainable forestry resources, optimize yields, improve resistance to disease and fire, enhance environmental conservation, and increase harvesting efficiency.

Relationship with Local Forest Workers

Some of our forests were owned and planted by local farmers prior to our acquisition of the forests. Upon acquisition, we usually invite these farmers to join us as forest workers in exchange for a monthly salary. Based on our understanding and knowledge of the forestry industry in China, we believe that such arrangement is unique in the forestry industry in China.

We believe we provide the farmers with a stable and regular income. We pay monthly salaries to these forest farmers and their salaries are determined with reference to the prevailing remuneration level at the local labor market. Since June 2008, we have made contributions to the social insurance fund for our forest workers as required by relevant PRC laws. Prior to that, we had agreed with them that they would use part of their salary to make these contributions on their own and we had included the amount of contribution in their salary. However, as our PRC legal advisers advised that this arrangement breached the PRC labor laws and regulations, since June 2008, we and these forest workers have entered into new labor contracts to comply with the new PRC Labor Contract Law and the PRC labor laws and regulations. The new labor contracts provide, among other things, that we shall fully pay the social insurance contributions, including the basic pension, basic medical insurance, unemployment insurance, work injury insurance and birth insurance, for the employees in compliance with the national and local social insurance laws and regulations in the PRC.

Our Operations

Our business operations are currently focused on up-stream timber activities, including planting of trees, the management and operation of forests and harvesting of forest resources to the sales of logs to third parties.

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

Sales and Marketing

We sell logs produced from our forests. Substantially all of our products are sold direct to our customers in China. The sales activity is led by our national sales managers as supported by our sales team. Our sales department is located in Beijing and our sales team travels frequently to our forests.

For each sale, we enter into a timber sales agreement with our customer. However, for our long-term customers, each year we typically enter into a master timber sales agreement with them setting out the annual sales volume of timber for the next year, the volume for each time of delivery and in some cases, also the base price (which may be adjusted subsequently after negotiation). The master timber sales agreement also provides for the quality of the logs, the delivery point, the obligation of the purchaser to transport the logs from the delivery point, the term of payment and the consequences for breach of contract. The price of our logs, if not set out in the master timber sales agreement, will be notified to these customers in our subsequent written notification. Before each delivery, we issue a delivery note to our customers confirming the amount of our delivery and the price of our logs. Payment for our products is made before delivery. We do not have any goods return policy.

As of June 30, 2010, we had a sales force of 11 people. We deploy a direct sales strategy to develop our customer base. The main responsibility of our sales and marketing team is to closely monitor market development, provide after-sales services and other promotional work. Our sales team regularly visits our customers to promote our products and maintain a close relationship with our customers. We closely study the forestry markets in China. Through our efforts, we have an established customer base. We plan to continue to enlarge our customer base by way of (1) referrals by existing customers; (2) exploring new and potential customers by the approaching of potential customers; and (3) self introduction of customers in newly acquired forests after we have established our reputation in the area. In the past, our sales focused on relatively small, local customers. Now we also intend to increase sales of our logs to large customers and enter into long-term sales arrangements. To establish long-term sales and cooperation arrangements with large customers is one of the key elements of our strategy.

Customers

Currently all of our logs are sold to customers in China. The substantial majority of our customers are located in or near Sichuan and Yunnan.

Most of our customers are wood processing factories. They produce wood panels and wood-based products which are cut from logs. Their products are used for furniture making, flooring, house building and infrastructure. The end-users of our logs fall into three main categories: (1) contractors who use our products for house building and infrastructure; (2) furniture makers; and (3) paper manufacturers.

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we had a total of 16, 19, 17 and 17 customers, respectively, which had purchased and received our logs during these respective periods. Our five largest customers in aggregate accounted for approximately 85.3%, 44.8%, 59.1% and 62.2%, respectively, of our revenue in 2007, 2008, 2009 and the six months ended June 30, 2010. During the same periods, our largest customer in each respective period accounted for approximately 22.7%, 9.7%, 13.9% and 13.3%, respectively, of our revenue. Our five largest customers during 2007 were purchasers of our logs harvested in Sichuan. For 2008, 2009 and the six months ended June 30, 2010 our five largest customers were all located in Yunnan. Furthermore, in August 2010, we entered into a strategic partnership cooperation agreement with China National Light Industrial Products Imp. and Exp. Corp., pursuant to which we agreed to provide it with at least 1.0 million m^3 of logs between July 1, 2010 and June 30, 2015. In June 2010, we entered into a long-term sales framework arrangement with China Packaging Group Company Limited, pursuant to which we agreed to provide it with at least 1.5 million m^3 of logs over the next five years. We believe long-term sales and cooperation arrangements with established, large customers improves the stability and predictability of our sales.

Transportation

Our customers are responsible for transporting our products from our forests to their ultimate destinations. According to the PRC Forestry Law, any entity which needs to transport the forest trees (except those forest trees which can only be removed by the state) out of the forest zones must apply for a timber transportation permit issued by the forestry department at the county level or above. According to the PRC Forestry Law and the Implementation Regulations of PRC Forestry Law, after the entity obtains the timber logging permit, the forestry bureaus will issue a timber transportation permit to the entity for transporting the timber out of the forest zone. Our customers are responsible for applying for timber transportation permits and we will provide them the relevant logging permits for processing. The local forestry bureaus also set up check points on the roads connecting the forested areas to ensure all logging and transport out of the forest areas are legal.

Suppliers

We engage the village of the relevant forest and professional independent third parties for harvesting our Sichuan and Yunnan forests, respectively. As they are required to equip themselves, we do not supply any equipment or machinery. We also do not need trucks for transportation as our customers arrange the pick-up of timber from the roadsides near our forests. Saplings for replanting are provided by the PRC government as part of our forest maintenance fees to the government.

Employees

As of June 30, 2010, we had 322 employees, including 14 in finance, 18 in administration, 60 in resources management, 11 in sales and marketing and 189 forest workers. We consider our relationship with our employees to be good.

Inventory Control

We adopt inventory control that allows us to closely monitor the level of our log inventories. Our resources management staff at the delivery points record the amounts of logs delivered to customers and another staff verifies the record. The logs inventory is recorded by species, grade and stem diameter. Our resources management department conducts inventory count at the end of each year and our finance department cross-checks the inventory count record against its accounting records. We prepare for the logs inventory according to the amount of our confirmed sales order, our expected sales in the coming months and our logging capacity.

Our June 30 inventories are typically higher than our average level of inventories at the end of the previous year as we harvest more logs in Sichuan during the second quarter in advance of the rainy season in Sichuan (which occurs in July through September), during which we cease logging in Sichuan for safety reasons. Since timber will usually be taken away by our customers within seven days from delivery day, we do not need warehouses to store timber for the long term, thereby reducing our warehouse costs. During the rainy season, however, we typically give our customers up to two months to pick up their orders.

We request our customers to pay in full for their orders prior to picking up their orders. Typically, 50% of the purchase price is paid upon order and prior to our cutting the timber. The other 50% is typically paid prior to pick-up but after we have cut the timber.

Quality Control

Our quality control consists of two phases:

Acquisition Phase

Before we decide to purchase a forest, we employ a strict procedure for assessment and selection. Our dedicated forest team will conduct an on-site assessment of the potential forest. If the assessment is positive, we will engage an independent valuer.

Operation Phase

Our resources management department is principally responsible for the maintenance and monitoring of our forests as well as the management and supervision of our forest workers. We also have a dedicated forest team which regularly visits our forests to monitor our forest workers and forest conditions. Our forest workers who are stationed in our forests also regularly inspect our forests and report to our resources management department to ensure continuing compliance with forestry regulations. They are responsible for the daily management and maintenance of our forests and are required to submit to our resources management department regular maintenance reports and special reports for any unusual events. At the end of each year, we also engage an independent professional valuer to assess and evaluate our forests and issue a valuation report to us.

Competition

Our competition mainly comes from various market participants in the PRC. There are large forestry operators in the PRC, most of which are state-owned enterprises and possess large amounts of forest reserves. However, given that the PRC government has different objectives in forestry management at a macro level and profit-making may not be the sole objective set by the state-owned forest operators, we believe that our primarily competitors are those in the private sector.

Other large China forestry operators that we compete with include Sino-Forest Corporation. There are also a number of smaller forest owners, that are located in different provinces of China. As our operations are currently focused in Sichuan and Yunnan, we may be less competitive when selling our logs to customers in these other provinces as these local competitors' transportation costs will be lower. We also compete with overseas producers that export logs. With the exception of some imported timber from Myanmar in Yunnan, we believe there is currently only a small amount of imported timber in Sichuan and Yunnan.

Many forestry operators in China are focused on acquiring land to establish fast growing plantations of eucalyptus (for the pulp and paper industry), Chinese fir and pine. These companies have largely focused on the southern provinces such as Guangdong, Guangxi, Hainan Island, Shandong and Henan. However, as reasonably-priced land suitable for plantation forests is becoming scarce, particularly in Guangxi and Guangdong provinces, it is likely that some of these locally and foreign owned pulp and paper companies will locate to other provinces to expand their forest base. This may drive up the cost of acquiring forests in the provinces where these companies are active and we currently or in the future may operate. The market for our products in the PRC is highly competitive in terms of price and quality. In addition, wood-based products are subject to increasing competition from a variety of substitutes, including non-wood and engineered wood-based products, as well as import competition from other worldwide suppliers.

We believe the principal barriers to acquiring a large market share of the timber industry in China is the ability to acquire high quality forests, forestry management know-how and access to the necessary capital to acquire forests and develop the infrastructure to carry out operations.

Research and Development

In connection with the expansion of our business operations, we plan to carry out research and development on sustainable forest management, tree improvement, breeding, growth monitoring and silvicultural operations.

We intend to conduct our research primarily through collaboration with various research institutions. We also plan to establish a research centre during 2011, which will conduct research on advanced forestry management technology and practices, development of new varieties of trees seedings that have a faster growth rate, as well as other technologies to increase tree growth rates.

Environmental

Our forestry operations are subject to PRC laws and regulations relating to the protection of the environment. See "Government Regulation — Deforestation Management" and "Government Regulation — Environmental and Forest Protection."

In light of the position of the local forestry bureaus, we internally follow a practice that our annual maximum logging amount should not exceed 10% of our total forest stock volume. Upon receiving an order from our customers, our resources management department will check (i) whether the 10% annual logging cap has been utilized up to that moment; and (ii) the volume of logs in the order as compared to the un-utilized logging cap, to ensure our compliance with the anticipated annual logging cap. Furthermore, the relevant logging activities with a harvesting plan must be approved in advance by a member of our senior management. After selecting the appropriate forest for logging, we apply for the logging permit with the local forestry bureau.

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

We plan and conduct our operations to comply with PRC environmental rules and consider additional measures to minimize the possible impact of our operations to the environment.

Real Poperties

As of June 30, 2010, we leased one property in Hong Kong and six properties in China — three in Yunnan, one in Sichuan, one in Inner Mongolia and one in Beijing. All of these properties are for office use.

Intellectual Property

We have registered one trademark, applied for the registration of four applied trademarks and registered two domain names in Hong Kong and the PRC.

Insurance

We strive to maintain insurance coverage on all of our forests, subject to the terms and conditions of the insurance policies, for loss of trees arising from fire, hail, floods, snow, pests and theft. The term of our insurance policies is generally 1 or 2 years and the insurance premium is set by the insurance company after taking into account the log price changes and the biological growth. Given that our forests are our important assets, we take into account the insurance premiums and the possibility of risks to be covered under the insurance policy when regularly reviewing the sufficiency of our insurance coverage.

For the years ended December 31, 2007, 2008, 2009 and the six months ended June 30, 2010, we paid an aggregate of approximately RMB13.3 million, RMB15.9 million, RMB16.1 million (US$2.4 million) and RMB6.0 million (US$0.9 million), respectively. Given the nature of our operations and business, the value of our assets and turnover may exceed the amount of our insurance coverage. Therefore, our insurance coverage may not adequately protect us against certain risks. See “Risk Factors — Our insurance coverage may not adequately protect us against certain risks”.

Safety

Our standard of occupational health and safety management was recognized by our award of the Authentication Certificate of Occupational Health and Safety Management System (GB/T28001-2001) issued by Beijing NGV Certification Centre, an approved accreditation body in China. We engage unaffiliated third parties to provide harvesting activities. In respect of our engagement of the professional harvesting teams to undertake harvesting in Yunnan, our insurance policy taken out for our Yunnan forests covers third party liability and accident injuries. The new insurance policy we took out for our Sichuan forests also covers third party liability and accident injuries.

Legal Proceedings and Regulatory Compliance

We are not engaged in any litigation, arbitration or administrative proceedings pending or, to our knowledge, threatened against us that could have a material adverse effect on our business, financial condition or results of operation. We may, however, be involved in litigation matters from time to time.

GOVERNMENT REGULATION

Major Forestry Policies in the PRC

- According to the Decision of the Central Committee of the Communist Party of China and the State Council on Accelerating the Development of Forestry Industry (中共中央、國務院關於加快林業發展的決定) promulgated on June 25, 2003, the PRC government encourages all social entities including all capable farmers, urban residents, science and technological personnel, private business owners, foreign investors, cadres and other staff of enterprises, non-profit institutions, administrative organs and social groups to participate in the development and construction of forestry, solely or through partnership.

- According to the Guiding Catalogue for Industry Restructuring (產業結構調整指導目錄) promulgated by the National Development and Reform Commission (the "NDRC"), which took effect on December 2, 2005, and the Catalogue for the Guidance of Foreign Investment Industries (外商投資產業指導目錄) promulgated by the Ministry of Commerce ("MOFCOM") and NDRC on October 31, 2007, which came into force on December 1, 2007, the PRC government encourages foreign investments in the business of planting forest trees.

- The policies on the transfer of the state-owned forestry resources are relatively strict, which provide that the state-owned forestry resources, before being transfered, should be valued by qualified asset valuation institutions. Details of the mechanisms for the transfer of the state-owned forestry resources have not yet been promulgated, and on February 8, 2007, the SFA announced that before such mechanisms are promulgated by the State Council, it would not accept further applications for forest use rights certificate involving transfer of state-owned forestry resources.

- According to the Outline of Policy on Forest Industry (林業產業政策要點) promulgated by seven ministries of the PRC including the SFA on August 10, 2007, (1) the development of essential technology, equipment and products which could improve forest industrial structure is encouraged; (2) forest resource development and international cooperation on such development are encouraged; (3) non-state ownership in the forest industry is encouraged; (4) preferential tax policies on forestry shall be implemented; and (5) the PRC government supporting policies on forestry insurance shall be formulated.

- According to the Opinion on Comprehensively Promoting the Reform of the System of Collectively Owned Forestry Rights (中共中央國務院關於全面推進集體林權制度改革的意見) issued by the Central Committee of the Communist Party of China and the State Council on June 8, 2008, the PRC government will promote the reform of the system of collectively-owned forest use rights. The reform itself does not change ownership of the forest land but provides that collectively-owned forest land will continue to be owned by the collectives, while the ownership of forest trees and the use rights of forest land with a period of 70 years should be granted to the villagers with clearly established ownership and rights. The opinion provides that the villagers should be allowed to manage these forests and their benefits should be protected. The PRC government will aim to implement those reforms within approximately five years. The opinion also provides that those who are entitled to the forest use rights shall have full rights to dispose of these rights in accordance with PRC laws, by way of subcontracting, leasing, transferring, mortgaging or using them for contributing to the capital of a company, provided that the use of the forestry land remains unchanged. Furthermore, the PRC government will simplify the legal formalities for management of logging activities and the approval procedures, and will support the establishment of leading forestry enterprises and promote large-scale forestry production and standardization of the forestry management.

- On June 29, 2009, the SFA issued the Notice on Working Plan of Compilation of Annual Logging Quotas for the 12th Five-Year Period (關於"十二五"期間年森林採伐限額編制工作方案的通知) which sets forth the annual logging quotas for the period from 2011 to 2015. The Notice requires the above working plan of annual logging quotas for this period to be executed under the guidance of the Decision of the Central Committee of the Communist Party of China and the State Council on Accelerating the Development of Forestry and the Opinion on Comprehensively Promoting the Reform of the System of Collectively owned Forestry Rights. The principle of the Notice is to focus on the overall quantity control and forest management.

- On October 29, 2009, SFA, NDRC, the Ministry of Finance, MOFCOM and the State Administration of Taxation or SAT, jointly promulgated the Plan of Revitalizing Forestry Industry (林業產業振興規劃) (2010-2012), according to which the PRC government will adopt different measures to encourage the development of forestry industry in year 2010 to 2012. In addition to reducing the forest maintenance fee from 20% of relevant sales value to no more than 10%, the PRC government will encourage expansion of industry players in both domestic and international markets, acceleration of technological innovations, strengthening of brand construction, assist in the expansion of leading enterprises, support the small and medium enterprises and promote forestry reform, etc. In particular, the PRC government will highly support 100 national key leading forestry enterprises and the ten largest distinctive industry clusters within three years to gradually form different fundamental industries.

Forest Classifications

Under the PRC Forestry Law (中華人民共和國森林法) implemented on January 1, 1985 and amended on April 29, 1998 (the "PRC Forestry Law"), the PRC government recognizes following five classifications of forests in the forestry industry:

- protection forests — forests used for ecological protection, including for the conservation of water resources, retention of water and soil, as wind cover and for protection of farms, fields and roads;

- commercial forests — forests used for the production and harvesting of wood logs;

- economic forests — trees used for the production of fruit, oils, beverages, medicines and other industrial materials;

- firewood forests — forests used for the production of firewood and other fuels; and

- special purpose forests — forests used for national defense, environmental protection and scientific research.

The commercial forests, economic forests and firewood forests and the related forest land use rights (and the other land use rights of forests, trees and other woodlands stipulated by the State Council), are transferable under the PRC laws. Moreover, according to the PRC laws, they can be appraised and converted into shares or used as capital contribution for equity joint ventures or cooperation conditions for cooperative joint ventures. However, forest lands shall not be converted into non-forest lands.

Deforestation Management

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

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

- Logging quotas

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

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

According to the Implementation Regulations of PRC Forestry Law (中華人民共和國森林法實施條例) promulgated and effective as of January 29, 2000, the annual quota for certain key forest zones will be compiled by the SFA and approved by the PRC State Council and the quota will be set every five years. The Implementation Regulations of PRC Forest Law further stipulates that when foreign-invested timber forest reaches a certain scale and is ready for logging, the logging quota for foreign-invested timber forest, subject to the approval of the forestry bureaus at the provincial level, should be separately listed within the annual forest logging quota approved by the PRC State Council.

- Logging permits

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

For non-state-owned forestry operators, they shall apply for a logging permit with a document that contains contents such as logging objective, location, tree species, tree situation, area, stock, approach and reforestation measures.

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

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

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

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

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

- Violations

Illegal logging or logging in excess of timber production plans or logging permit quotas, is punishable by fines and the confiscation of illegally logged timber and confiscation of the proceeds from sales thereof. Illegal loggers may be asked to replant trees. If any logging unit or individual logger fails to fulfill reforestation tasks pursuant to the prescribed provisions, the department issuing the logging permit has the power to stop issuing such permits. In the case of serious violations, the relevant forestry bureaus may impose fines and administrative sanctions.

Our current forestry operations are subject to the above PRC laws and regulations in relation to forest management and deforestation.

- Deforestation Management Reform

On December 26, 2008, the SFA promulgated the Notice about the Pilot Implementation of Forestry Deforestation Management Reform (國家林業局關於開展森林採伐管理改革試點的通知), according to which, the SFA will gradually reform the forestry deforestation system, simplify the approval procedures, establish a convenient and efficient deforestation approval system, and ultimately change the current standards-based control system to a sustainable operation management system. On July 17, 2009, the SFA further promulgated the Notice on Reform and Improvement of the Deforestation Management of Collective-owned Forestry (國家林業局關於改革和完善集體林採伐管理的意見), which provides that the PRC government will simplify the management procedures of forestry deforestation, implement the public notice system of logging quotas and policies, classify the forests located on forest or non-forest land and different logging methods to implement different management policies, and based on the forestry management plan to decide the annual logging quotas.

Transportation, processing and export of timber

- Transportation of timber

Other than the logging quotas and logging permits, timber transportation permits are required by the PRC government to further monitor the logging activities in the PRC.

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

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

On November 11, 2009, the SFA promulgated the Notice in respect of Further Strengthening the Timber Transportation Management (《國家林業局關於進一步加強木材運輸管理工作的通知》), according to which the state will adjust the location of the timber inspection stations and establish a new transportation inspection system mainly based on the fixed inspection and supplemented with the random inspection, unity the timber inspection equipments and the timber transportation permit, and increase the capital investment to enhance the inspection capacity, in order to further strengthen the timber transportation management.

- Processing of timber in forest zones

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

Environmental and Forest Protection

In order to protect forest resources, the PRC government at various levels formulates long-term forestry plans. The local PRC governments establish forest protection organizations to oversee forest protection, designate forest protection responsibility zones, and provide full-time or part-time forest protection personnel. Forest protection personnel may be appointed by the government at the county or township level. The main duties and responsibilities of forest protection personnel are to patrol and protect forests and stop activities that damage forest resources. In case of damage to forest resources, forest protection personnel may request the local authorities to resolve the issue. The PRC government shall formulate a unified annual timber production plan. The annual timber production plan shall not exceed the approved annual logging quota.

- Environmental Surveillance

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

- Forest Pests and Diseases Control

According to Article 17 of the Forest Pests and Diseases Control Ordinance (森林病蟲害防治條例), application of pesticides shall comply with the relevant regulations and prevent pollution, ensure human and livestock safety and minimize the death of beneficial insects.

- Environmental Impact Assessment

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

Environmentally sensitive areas include the following:

1. the areas stipulated under the national and local laws that need special protection, such as water source protection areas, scenic spots, nature reserves, forest parks, key national heritage, historical and cultural preservation areas, soil erosion protection areas and basic farmland protection areas;

2. the ecologically sensitive and vulnerable areas, such as key soil erosion areas that need special governance and supervision, natural wetlands and habitats of rare or special ecological environment and naturally regenerated forests, tropical rain forests, mangroves, coral reefs, spawning grounds, fisheries and other important ecosystems; and

3. the areas of social concern, such as cultural and educational areas, resorts, hospitals and other protection areas with regional and historical, scientific, national or cultural significance.

An environmental impact report generally shall cover the following:

1. a brief introduction to the development project;

2. the existing environment of the development project;

3. an analysis, prediction and assessment of the environmental effects from the development project;

4. the protective measures for the environment taken by the development project, and the technical and economic specifications and costs of such measures;

5. an analysis of the environmental effects from the economic losses and benefits of the development project; and

6. a proposal for monitoring the environmental effects of the development project; and a conclusion on the evaluation of its environmental effects.

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

1. the project name, location, types of industry and total investment amount;

2. the main beneficiaries of the environmental protection, such as schools, hospitals, cultural relics, landscaped areas, water resources or other sensitive points;

3. the analysis of the environmental impact and suggestions or measures to protect the environment; and

4. the conclusion on the evaluation of the project's environmental effects.

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

We have not conducted any formal environmental impact assessment for our Sichuan forests as the Sichuan local environmental authority does not consider it necessary.

- Reforestation of the Forest

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

Should forest logging entities or individuals fail to complete the reforestation task in compliance with the relevant provisions, the authorities may stop issuing any logging permits to them until they have completed their reforestation tasks. Under any of the following circumstances, the local forestry bureau may order the forest logging entities or individuals to complete the reforestation task within a prescribed period, and if they fail to do so, a fine of not more than two times the expenses required for completing the uncompleted reforestation task, may be imposed: (1) the forest logging entities or individuals fail to complete the reforestation task in two consecutive years; (2) the reforestation area completed within the current year is less than 50% of the area of reforestation required; (3) except for the arid or semi-arid areas as specially provided for by the government, the reforestation survival rate of the year is less than 85%; or (4) the forest logging entities or individuals fail to complete the reforestation task as scheduled in accordance with the requirements of the government at the level of the county where the forest is located.

Taxation

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

In addition, under the new PRC EIT Law, an enterprise incorporated outside of the PRC may be deemed to be a "non-resident enterprise" or "resident enterprise" according to their definitions thereunder. If that enterprise is deemed to be a "non-resident enterprise" without an office or premises in the PRC, a withholding tax at the rate of 10% may be applicable to any dividends it receives, unless it is entitled to reduction or exemption of such tax, for example, pursuant to relevant tax treaties (such as the tax treaties between the PRC and Hong Kong, under which, dividends paid by a foreign-invested enterprise in China to its shareholder(s) in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company is deemed to be a "beneficial owner" that is generally engaged in substantial business activities and entitled to treaty benefits and directly holds a 25% or more interest in the PRC enterprise). On the other hand, if that enterprise has "de facto management bodies" located within the PRC territory, it is considered as a "resident enterprise" under the new PRC EIT Law, then: (i) its global income will normally be subject to the enterprise income tax at the rate of 25% for China-sourced and overseas-sourced income; and (ii) any gains realized by our such overseas enterprise noteholders from the transfer of the shares of that enterprise may be regarded as China-sourced income, and as a result, become subject to a withholding tax at the rate up to 10%. Under the implementation regulations to the enterprise income tax, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and properties of an enterprise. In addition, the recent circular mentioned above sets out criteria for determining whether "de facto management bodies" are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises established outside of China that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of "de facto management bodies" for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises.

Pursuant to a circular regarding strengthening the income tax administration on income derived from transfer of equity interests in enterprises by non-residents, a non-resident shall file with the competent PRC tax authority and pay its PRC income tax within seven days from the transfer of the equity it holds in a resident enterprise if such income tax has not been withheld and paid on behalf of such non-resident; and if an offshore de facto management body transfers its indirect equity in a resident enterprise though the transfer of its equity in an offshore intermediary holding company, and the tax rate on such income in the jurisdiction where the intermediary holding company is located is below 12.5% or such income is exempted from income tax, then the offshore de facto management body shall submit the equity or share transfer agreement and other relevant materials to the competent PRC tax authority for examination and determination of its tax liabilities. If the competent PRC tax authority determines that the purpose for transferring the equity in the offshore intermediary holding company by the offshore de facto management body is to transfer the equity in a resident enterprise and is a tax evasion arrangement without fair commercial purpose, the PRC tax authority may, subject to the final examination by SAT, determine the nature of such transaction and adjust the tax liabilities according to the economic substance of such transaction.

Pursuant to the PRC Value-Added Tax Provisional Regulations (中華人民共和國增值稅暫行條例) which was promulgated on December 13, 1993, amended on November 5, 2008 and came into effect on January 1, 2009, and its implementation regulations which was promulgated on December 15, 2008 and effective as of January 1, 2009, the entities and individuals engaged in the sale of goods, provision of processing, repair and replacement services, and the importation of goods within the PRC shall be subject to a VAT at the standard rate of 17% unless otherwise provided. The agricultural products which include the forest products are entitled to a preferential VAT of 13%, and primary agricultural products which include the forest products produced and sold by the agricultural producers engaged in the agricultural productions shall be exempt from the VAT.

Labor

According to the PRC Labor Contract Law (中華人民共和國勞動合同法) promulgated by the SCNPC on June 29, 2007 and effective as of January 1, 2008, labor relationships between the employer and the employees must be set forth in labor contracts. According to the Labor Law of the PRC (中華人民共和國勞動法), the "Labor Law") promulgated by the SCNPC on July 5, 1994 and effective as of January 1, 1995, labor relationships between employers and employees must be set forth in labor contracts. An employer cannot require its employees to work in excess of certain hour limits and shall provide wages which are no lower than local standards on minimum wages to the employees. The employer shall establish and improve its system for labor safety and sanitation, and educate employees on labor safety and sanitation. Labor safety and sanitation facilities shall meet government-determined standards. The employer shall provide employees with labor safety and sanitation conditions meeting government stipulations and with necessary articles of protection, and carry out regular health examination for employees engaged in work with occupational hazards. The PRC government provides special protection to female workers and juvenile workers.

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

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

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

MANAGEMENT

Directors and Executive Officers

Our board of directors consists of seven directors, consisting of two executive directors, two non-executive directors and three independent non-executive directors. The business address of the executive directors below is 23rd Floor, Tower B, Vantone Center, Jia 6 Chaowaidajia, Chaoyang District, Beijing, PRC.

A description of the business experience and present position of each director and executive officer is provided below.

Executive Directors

Li Kwok Cheong (李國昌), aged 53, has been an executive director and our chairman since 2003. Mr. Li is also a director of our subsidiaries Profit Wise International Limited, Sky Famous Limited, Rich Fame International Limited, Ultra Big Investment Limited, Fine Fit Limited, China Zhaoneng Group Limited, Kunming Ultra Big, Chengdu Yishang and Guizhou Wosen. Mr. Li invested in tobacco trading from 1993 to 2001, afterwards invested in real property development, and acquired his first piece of forest in China through Beijing Zhaolin in 2003. Mr. Li was admitted as a council member of Capital Enterprises Club and the CCPEF, giving us a higher industry profile and allowing Mr. Li to participate in national-level discussions and policy decision making regarding the Chinese forestry industry. Since 2005, Mr. Li has held a 49% ownership interest in Beijing Shi Ji Qiang Cultural and Arts Limited (北京世紀牆文化藝術有限公司), a private company unrelated to us and is engaged in exhibition organization. Mr. Li graduated from China National Lawyers Correspondence Education Centre in June 1987.

Li Han Chun (李寒春), aged 35, has been an executive director of our company since December 21, 2007, as well as our subsidiaries Profit Wise International Limited, Sky Famous Limited, Rich Fame International Limited, Ultra Big Investment Limited, Fine Fit Limited, China Zhaoneng Group Limited, Kunming Ultra Big, Chengdu Yishang and Guizhou Wosen. Mr. Li has also been our chief executive officer since 2004. Mr. Li entered the forest management industry in February 2004 when he joined us and is currently a council member of the CCPEF. Prior to joining us, Mr. Li had about six years of management experience, including experience as the co-founder and managing director from April 1999 to 2003 of Creative Energy Solutions Holdings Limited listed on the Hong Kong Stock Exchange in January 2002, which was dissolved in 2007. He also served as the marketing manager for Tianjin at P&G Company (China) Limited. Mr. Li Han Chun obtained a bachelor's degree in engineering in July 1997 and a masters degree in architecture from Tsinghua University in July 2006. He is the cousin of Ms. Wu Xiao Fen, our joint chief financial officer.

Non-Executive Directors

Xiao Feng (肖楓), aged 38, is a director appointed on January 8, 2008 when the Carlyle Funds invested in us and nominated him to our board. Mr. Xiao is a managing director of the Carlyle Group and focuses on growth capital investments in China. Prior to joining Carlyle in April 2005, Mr. Xiao was a Vice General Manager of China International Capital Corporation from January 2000 to April 2005. Mr. Xiao was appointed as a director of Xtep International Holdings Limited (which shares are listed on the Hong Kong Stock Exchange in September 2007 and became its non-executive director in January 2008). Mr. Xiao received an master's degree on business administration from the China Europe International Business School in April 2000, a PRC Lawyer's Qualification Certificate issued by Ministry of Justice of the PRC in June 1997 and a bachelor's degree on computer science and a bachelor's degree on English from Tsinghua University in July 1995.

Li Zhi Tong (李志同), aged 68, has been a director since April 3, 2008, prior to which, he was our consultant since April 19, 2005. Mr. Li acquired his forestry experience by being the vice-chairman of the CCPEF since 2001 and having served as a major general at the PRC Forestry Security Bureau, which is administered by both the SFA and the Ministry of Public Security.

Independent Non-Executive Directors

Wong Tak-jun (黃德尊), aged 48, has been an independent non-executive director since April 3, 2008. Mr. Wong is the Chair Professor of Accountancy and the Dean of the Faculty of Business Administration of the Chinese University of Hong Kong, before which, he taught at the University of Maryland in the United States. Mr. Wong has published numerous research articles in a number of finance and accounting journals. He received his Ph.D. and Master of Business Administration from the University of California, Los Angeles in December 1990 and June 1986, respectively.

Wang Wei Ying (王偉英), aged 66, has been a director since August 11, 2008. Mr. Wang has been the vice-chancellor of the Heilongjiang Forestry Science Academy from October 1993 to June 2004. Since 1999, he has been a council member of Chinese Society of Forestry. In August 2003, he was awarded a scientific technology award for his research in integrated technology applicable to timber wood-based sustainable forestry development.

Liu Can (劉璨), aged 44, has been a director since August 11, 2008. Since September 2002, Mr. Liu has been a professor and post-graduate student tutor of the Economics and Management School of China Agriculture University, and since November 2006, has been a visiting professor of Qingdao Agriculture University. He has been conducting research for the Economic Development Research Center of the China Forestry Scientific Research Academy established by SFA since 2002 and has published books relating to forestry. He obtained a master's degree in agriculture from Nanjing Forestry University in November 1992 and a Ph.D. degree in management from China Agriculture University in July 2000.

Senior Management

Tong Wai Kit, Raymond (唐偉傑), aged 37, has been our joint chief financial officer and company secretary since April 2008. Mr. Tong has over 13 years of working experience in the related fields of finance, audit and accounting. Prior to joining us, Mr. Tong worked as the chief financial officer, company secretary and qualified accountant for ZZNode Technologies Company Limited from July 2006 to December 2007, a telecom company listed on the Hong Kong Stock Exchange. From March 2004 to June 2006, Mr. Tong worked as a joint company secretary for China Minsheng Banking Corporation Limited, and from April 2003 to December 2003, he worked as the chief financial officer and company secretary for Nanjing Dahe Outdoor Media Company Limited (currently known as Dahe Media Co., Ltd.), a company listed on the Hong Kong Stock Exchange. Mr. Tong is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated in June 1995 from Hong Kong Polytechnic University with a bachelor's degree in accountancy.

Wu Xiao Fen (吳曉芬), aged 34, has been our joint chief financial officer since January 2005. Prior to joining us, she had been the chief officer of the finance department of Beijing Kerui Yilian Energy Solution Technology Development Company Limited. Ms. Wu holds an intermediary accountant certificate and a registered tax agent certificate in China and a bachelor's degree in accounting from the Economics Management Department of Tsinghua University in July 1999. She is the cousin of our chief executive officer and executive director, Mr. Li Han Chun.

Zhang Hong Yu (張宏宇), aged 34, has been our chief resource officer since January 2005. Prior to joining us, he was the manager of the administrative department of Huicong Commercial Information and Advertising (Beijing) Co., Ltd. and he received a bachelor's degree in chemistry from Beijing Normal University in July 2000.

Li Hai Jun (李海軍), aged 40, was the personal assistant of Mr. Li Kwok Cheong for approximately three years prior to joining us. From July 2000 to January 2005, he worked for Sichuan Sheng Hong Forestry Development Co., Ltd. and prior to this, worked for Sichuan Yi Jin Forestry Development Co., Ltd. Mr. Li graduated from Sichuan Agricultural University in July 1992 after completing his studies in forestry. He is the brother of our chairman and executive director, Mr. Li Kwok Cheong.

Board Committees

Audit Committee

We have established an Audit Committee pursuant to Chapter 3 of the Hong Kong Listing Rules and the Code of Best Practice set out in Appendix 14 to the Hong Kong Listing Rules.

The Audit Committee has three members comprising Mr. Wong Tak-jun, Mr. Wang Wei Ying and Mr. Liu Can, all of whom are our independent non-executive directors. The chairman of the Audit Committee is Mr. Wong Tak-jun.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of our company, nominate and monitor external auditors and provide advice to our directors.

Remuneration Committee

We have established a Remuneration Committee in compliance with the Code on Corporate Government Practices set out in Appendix 14 to the Hong Kong Listing Rules. Our Remuneration Committee has three members comprising Mr. Wong Tak-jun and Mr. Wang Wei Ying, our independent non-executive directors, and Mr. Xiao Feng, our non-executive director. The chairman of the Remuneration Committee is Mr. Wong Tak-jun.

The primary functions of the Remuneration Committee are to:

(a) make recommendations to our directors on our policy and structure for the remuneration of our directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration;

(b) determine the terms of the specific remuneration package of each executive director and senior management of our company;

(c) review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the directors from time to time;

(d) review and approve the compensation payable to the directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive;

(e) review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(f) ensure that no director or any of his associates is involved in deciding his own remuneration.

Nomination Committee

We have established a Nomination Committee in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules. Our Nomination Committee has three members comprising Mr. Li Han Chun, our executive director, and Mr. Wang Wei Ying and Mr. Liu Can, our independent non-executive directors. The chairman of the Nomination Committee is Mr. Li Han Chun.

The primary functions of the Nomination Committee are to:

(a) review the structure, size and composition of the board on a regular basis and make recommendations to the board regarding any proposed changes;

(b) identify, select or make recommendations to the board on the selection of individuals nominated for directorships;

(c) assess the independence of our independent non-executive directors;

(d) make recommendations to the board on relevant matters relating to the appointment or reappointment of our directors and succession planning for our directors;

(e) report to the board its decisions of recommendations, except for those restricted by law or regulatory requirements; and

(f) make recommendations to the board, in particular to ensure the majority of the board is independent of the management.

Share Option Scheme

We adopted a share option scheme pursuant to the written resolutions of our shareholders and a resolution of the board passed on November 5, 2009 (the "Adoption Date"). The maximum number of shares which may be issued upon exercise of all options granted under the share option scheme and any other schemes shall not exceed 10% of the shares in issue (without taking into account the shares alloted and issued pursuant to the partial exercise of the over-allotment option on December 24, 2009 in connection with our inital public offering) as of the date of our initial public offering on the Hong Kong Stock Exchange (the "Scheme Mandate Limit"). Our board may, however, at any time seek approval from our shareholders to refresh the Scheme Mandate Limit, except that the maximum number of shares which may be issued upon exercise of all options to be granted under our share option scheme and any other scheme of our company cannot exceed 10% of the shares in issue as of the date of approval by shareholders in general meeting where the Scheme Mandate Limit is refreshed. In addition, our company may seek separate approval from our shareholders in general meetings for granting options to eligible persons defined in the share option scheme beyond the Scheme Mandate Limit. In addition to the limits above, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under our share option scheme and any other options granted and yet to be exercised under any other scheme of our company cannot exceed 30% of our company's issued share capital from time to time. No options may be granted under our share option scheme and any other share option scheme of our company if this will result in such limit being exceeded.

We granted options to our employees to purchase a total of 42,750,000 shares in September 2010. As a result, we expect to incur share based compensation charges in the second half of 2010.

Compensation of Directors and Senior Management

Our remuneration policies are formulated based on qualifications, years of experiences and the performance of individual employees and are reviewed regularly.

The aggregate amount of compensation (including any salaries, fees, discretionary bonuses and other allowances and benefits in kind but excluding share-based payment and retirement benefits) paid by us during the years ended December 31, 2007, 2008 and 2009, to those persons who have been or are our directors, were approximately RMB0.4 million, RMB1.5 million and RMB3.2 million (US$0.5 million) respectively. The fees or contributions to pension schemes or retirement benefit plans payable by us to or on behalf of our directors during these periods was approximately RMB21,164, RMB23,354 and RMB26,100 (US$3,849) respectively. During the years ended December 31, 2007, 2008 and 2009, Mr. Li Han Chun, our executive director, was the only director who has received remuneration from us. During the years ended December 31, 2007, 2008 and 2009, Mr. Li Kwok Cheong was the sole director of Beijing Zhaolin, and no payments were made to him.

Particulars of Executive Directors' Service Contracts

Each of our executive directors has entered into a service contract with us for an initial fixed term of three years commencing from December 3, 2009 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our executive directors is entitled to the respective basic salary set out below. They are also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive directors in respect of any financial year may not exceed 2% of our turnover as shown in our audited consolidated financial statements in respect of that financial year. An executive director may not vote on any resolution of our directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of the executive directors under the current service contract with us are as follows:

Name	Annual Amount
Li Kwok Cheong	RMB1.2 million
Li Han Chun	RMB1.2 million

Save as aforesaid, none of our directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

PRINCIPAL SHAREHOLDERS

The following table sets forth information with respect to the direct and indirect, legal and beneficial ownership and control of our common shares based on publicly available information, as of September 30, 2010, by: (1) each of our directors and executive officers who hold beneficially 1% or more of our common shares and (2) each person known by us to own beneficially 10% or more of our common shares.

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of Shareholding *(Note 6)*
Kingfly Capital *(Note 1)*	Beneficial Owner	1,534,950,000	50.15%
	Security Interest	75,000,023	2.45%
Mr. Li Kwok Cheong *(Note 1)*	Interest in controlled corporation	1,534,950,000	50.15%
	Security Interest	75,000,023	2.45%
Carlyle Asia Growth Partners III, L.P. *(Note 2)*	Beneficial owner	322,650,000	10.54%
CAGP General Partner, L.P. *(Note 2)*	Interest in controlled corporation	335,475,000	10.96%
CAGP Ltd. *(Note 2)*	Interest in controlled corporation	335,475,000	10.96%
TC Group Cayman Investment Holdings, L.P. *(Note 2)*	Interest in controlled corporation	335,475,000	10.96%
TCG Holdings Cayman II, L.P *(Note 2)*	Interest in controlled corporation	335,475,000	10.96%
Carlyle Offshore Partners II, Limited *(Note 2)*	Interest in controlled corporation	335,475,000	10.96%
Top Wisdom Overseas Holdings Limited *(Note 3)*	Beneficial owner	194,175,000	6.34%
Mr. Li Han Chun *(Note 3)*	Interest in controlled corporation	202,175,000	6.61%
Partners Group AG *(Note 4)*	Investment Manager	165,150,000	5.40%
Partners Group Holding AG *(Note 5)*	Interest in controlled company	165,150,000	5.40%

Notes:

1. *Kingfly Capital is wholly-owned and controlled by Mr. Li Kwok Cheong and Mr. Li Kwok Cheong is therefore deemed to be interested in the shares held by Kingfly Capital.*

   Kingfly Capital, as the chargee in respect of a charge made by Top Wisdom as the chargor over 75,000,023 shares representing approximately 2.45% of the issued share capital of the company as of September 30, 2010, has a security interest over such shares.

2. *CAGP General Partner, L.P. is the general partner of CAGP and CAGP Coinvestment which collectively are interested in 10.96% of the total issued share capital of the company. CAGP General Partner, L.P. itself acts by its general partner, CAGP Ltd., which in turn is 100% owned, controlled and managed by TC Group Cayman Investment Holdings, L.P., the general partner of which is, TCG Holdings Cayman II, L.P.. Carlyle Offshore Partners II, Limited is the general partner of TCG Holdings Cayman II, L.P.. Each of CAGP General Partner, L.P., CAGP Ltd., TC Group Cayman Investment Holdings, L.P., TCG Holdings Cayman II, L.P. and Carlyle Offshore Partners IIis deemed to be interested in the shares held by CAGP and CAGP Coinvestment.*

3. *Top Wisdom is wholly-owned and controlled by Mr. Li Han Chun and Mr. Li Han Chun is therefore deemed to be interested in the shares held by Top Wisdom.*

   Top Wisdom, as the chargor, has created a charge in favour of Kingfly Capital, as the chargee, over 75,000,023 shares representing approximately 2.45% of the issued share capital of the company as of September 30, 2010.

4. *Partners Group Management (Scotland) Limited, the general partner of Partners Group Access, which is interested in 4.68% of the total issued share capital of the company, is accustomed to act in accordance with the direction of Partners Group AG. In addition, Partners Group AG has discretion to make decisions regarding the exercise of the voting rights attributable to the 0.72% interest in our company held by International Fund on account of IFM-Invest: 2 PrivateEquity. Partners Group AG is therefore, deemed to be interested in 5.51% of the total issued share capital of the company.*

5. *Partners Group AG is a wholly-owned subsidiary of Partners Group Holding AG, which is, therefore, deemed to be interested in 5.51% of the total issued share capital of the company.*

6. *Beneficial ownership includes voting or investment power with respect to the securities.*

RELATED PARTY TRANSACTIONS

As of June 30, 2010, we made unsecured, interest-free advances, repayable on demand by us, to Mr. Li Kwok Cheong, our chairman and executive director, in the amount of RMB1,457,670, (US$0.2 million). As of December 31, 2008 and 2009, we received unsecured, interest-free advances, with no fixed interest date from Mr. Li Kwok Cheong and Mr. Li Han Chun, our executive director and chief executive officer, in the amount of RMB6,319,976 and RMB328,315 (US$48,413), respectively. In addition, as of December 31, 2009, we made advances to Mr. Li Kwok Cheong and Mr. Li Han Chun in the total amount of RMB1,012,279 (US$149,271).

Pursuant to the share purchase agreement and shareholders agreement entered into by and among Mr. Li Kwok Cheong, Kingfly Capital Limited, Mr. Li Han Chun, Top Wisdom Overseas Holdings Limited, our company, the Carlyle funds and the Partners Group Funds on June 25, 2009, Kingly Capital Limited transferred 69,685 shares, 2,779 shares, 125,604 shares and 19,324 shares to Carlyle Asia Growth Partners III, L.P., CAGP III Coinvestment, L.P., Partners Group Access 119 L.P. and International Fund Management S.A. on account of IFM-Invest: 2 PrivateEquity, respectively, at a total consideration of US$2,500,008 on that day. Pursuant to the same agreements mentioned above, Top Wisdom Overseas Holdings Limited transferred 41,811 shares, 1,667 shares, 75,362 shares and 11,594 shares to Carlyle Asia Growth Partners III, L.P., CAGP III Coinvestment, L.P., Partners Group Access 119 L.P. and International Fund Management S.A. on account of IFM-Invest: 2 PrivateEquity, respectively, at a total consideration of US$1,499,991 on June 25, 2009.

Our articles of association provide that a director shall not vote (nor be counted in the quorum) on any resolution the board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, subject to the conditions provided therein. Further, according to our internal corporate governance manual, our board has the duty to decide whether any director may participate in any discussions or vote on any matters that have given rise or may give rise to a conflict of interest. A board meeting (as opposed to a decision made by way of written resolutions) is required to be held to discuss such matter and our independent non-executive directors with no conflict of interest are required to be present at such meetings.

We have our own internal control and accounting systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third party financing.

Kingfly Capital Limited and Mr. Li Kwok Cheong (our “Controlling Shareholders”) together controlled, as of September 30, 2010, the exercise of voting rights over approximately 52.6% of the shares eligible to vote in the general meeting of our company.

We have adopted the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of our shareholders:

(i) our independent non-executive directors will review, on an annual basis, the compliance with the non-compete undertaking by our Controlling Shareholders under a non-competition deed entered into by our Controlling Shareholders on November 6, 2009 in favour of our company;

(ii) our Controlling Shareholders undertake to provide all information requested by our company which is necessary for the annual review by our independent non- executive directors and the enforcement of such deed;

(iii) our company will disclose decisions on matters reviewed by our independent non-executive directors relating to compliance and enforcement of such deed in the annual reports of our company; and

(iv) our Controlling Shareholders have signed an agreement not to compete with our company and will confirm their compliance therewith in the annual report of our company.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

We had no outstanding indebtedness during the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010. In July 2008, we entered into a non-binding credit facility agreement with Shenzhen Development Bank which has agreed, in principle, to grant us a credit line of not more than RMB1 billion, subject to the signing of definitive credit facilities agreement(s). Pursuant to this non-binding agreement, during the credit facility period, the credit facility may be revolved and can be provided in the form of a loan, trade financing, guarantee, letter of credit, bill exchange, overdraft, etc. The terms (including the amount, method and period) of each drawdown of the credit line will be agreed by the parties, provided that the total credit amount does not exceed RMB1 billion. We expect to enter into binding credit facilities agreement(s) with the bank on specific terms when we apply for credit facilities, subject to the bank's agreement at that time.

As of June 30, 2010, we had an outstanding payable to our directors in the amount of approximately RMB318,045 (US$46,899), representing listing expenses paid by the chairman on our behalf in connection with our Hong Kong initial public offering.