
FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Development Strategies

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

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

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

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting commissions and other estimated offering expenses payable by us in connection with the Global Offering), assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.85 per Share, being the mid-point of the proposed Offer Price range of HK\$1.60 to HK\$2.10 per Share, will be approximately HK\$1,280 million.

We intend to apply these net proceeds for the following purposes:

- approximately HK\$1,220 million (equivalent to approximately RMB1,073 million) or 95.3% of the net proceeds will be used to finance our acquisition of new forests to be identified within the next three years, of which approximately HK\$545 million (equivalent to approximately RMB480 million) or 42.6% of the net proceeds will be used to finance our acquisition of the forests in Ning Lang Xian, further details of which are set out in the section headed “Business — Seek rapid and sustainable growth through the acquisition and expansion of our forest reserves”. As at the Latest Practicable Date, the Company was in the process of sourcing suitable acquisition opportunities in Ning Lang Xian, Yunnan and Liang He Xian, Yunnan. Other than the forest in Ning Lang Xian referred to as above, the Group had not identified any other specific forest for acquisition;

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- approximately HK\$37 million (equivalent to approximately RMB33 million) or 2.9% of the net proceeds will be used for improvement of our management and information systems (including the implementation of the information management proposal provided by Shanghai SVA Communication Co., Ltd., at an estimated cost of RMB35.8 million, which involves, among other things, the installation of GIS, the details of which are set out in the section headed “Business — Our Future Plans — Further strengthen our overall management and information systems”), to would enhance the efficiency and effectiveness of our forestry management and operations, and upgrade and improvement of our other systems (including both hardware and software); and
- approximately HK\$23 million (equivalent to approximately RMB20 million) or 1.8% of the net proceeds will be used for research and development on the prediction and monitoring of the growth of trees planted in our forests and on improvement in our forestry management through a research centre to be established jointly with Beijing Forestry University by end of 2010, and on nurturing and improvement of seedlings, and other technology for speeding up tree growth with research institutes and/or universities within in the next three years, with an ultimate goal of improving our forest yields and tree quality. The planned capital expenditure for the research centre is expected to be approximately RMB3 million and is expected to be incurred in the second half of 2010.

In the event that the Over-allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the offering of these additional Offer Shares of approximately HK\$175 million to HK\$229 million (based on the Offer Price of HK\$1.60 to HK\$2.10 per Share). We intend to use these additional net proceeds to acquire further high quality forests in China.

In the event that the net proceeds exceeds HK\$1,280 million as a result of the Offer Price setting at the high end of the proposed offer price range, the additional net proceeds of approximately HK\$182 million will be used to acquire further high quality forests in China.

In the event that the net proceeds is below HK\$1,280 million as a result the Offer Price setting at the low end of the proposed offer price range, we will receive net proceeds of approximately HK\$1,098 million. Under such circumstances, the net proceeds allocated to finance our acquisition of new forests to be identified within the next three years (other than the one in Ning Lang Xian of approximately 53,000 hectares) will be reduced.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and other external financing. We currently believe that the net proceeds from the Global Offering, when combined with such alternate sources of financing, are sufficient for the uses set forth above. To the extent that the net proceeds of the Global Offering are not immediately applied for the above purposes, we will deposit the net proceeds into interest-bearing bank accounts.