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The information contained in this announcement is not for distribution, directly or indirectly, in or into the United States (including its territories and dependencies, any state of the United States and the District of Columbia). This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The Notes mentioned in this announcement have not been, and will not be, registered under the Securities Act. The Notes may not be offered or sold in the United States except pursuant to registration or an exemption from the registration requirements of the Securities Act. The Company does not intend to make any public offering in the United States.

CHINA FORESTRY HOLDINGS CO., LTD.

中 國 森 林 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 930)

ANNOUNCEMENT

COMPLETION OF THE ISSUE OF US$300 MILLION 7.75% SENIOR NOTES DUE 2015

The posting of the attached offering circular on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.09(2) of the Listing Rules, and not for any other purposes.

This overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Listing Rules.

Reference is made to the announcements of the Company dated 3 November 2010 and 11 November 2010 (the "**Announcements**") in respect of the Notes Issue. Terms defined in the Announcements have the same meanings when used in this announcement, unless otherwise defined.

Please refer to the attached offering circular (the "**Offering Circular**"), in relation to the Notes, which has been published on the website of the SGX-ST on 22 November 2010.

The posting of the Offering Circular on the website of the Stock Exchange is only for the purpose of facilitating equal dissemination of information to investors in Hong Kong and compliance with Rule 13.09(2) of the Listing Rules, and not for any other purposes.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it calculated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

By the order of the Board
China Forestry Holdings Co., Ltd.
Mr. Li Kwok Cheong
Chairman

Hong Kong, 22 November 2010

As at the date of this announcement, the executive directors of the Company are Mr. Li Kwok Cheong and Mr. Li Han Chun, the non-executive Directors of the Company are Mr. Xiao Feng and Mr. Li Zhi Tong, and the independent non-executive Directors of the Company are Mr. Wong Tak-jun, Mr. Wang Wei Ying and Mr. Liu Can.

STRICTLY CONFIDENTIAL — DO NOT FORWARD

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBs (AS DEFINED BELOW) UNDER RULE 144A OR (2) NOT U.S. PERSONS (AS DEFINED BELOW) AND ARE OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the offering circular attached to this e-mail. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions including any modifications to them from time to time, each time you receive any information from us as a result of such access.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Initial Purchasers or any person who controls it or any of its directors, employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Except with respect to eligible investors in jurisdictions where such offer is permitted by law, nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the issuer of the securities or to the Initial Purchasers to subscribe for or purchase any of the securities described herein and access has been limited so that it shall not constitute a general advertisement or solicitation in the United States or elsewhere. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be described to be made by the Initial Purchasers or their affiliates on behalf of the issuer in such jurisdiction.

You are reminded that you have accessed the attached offering circular on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorized to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

Actions That You May Not Take: You should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORIZED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT AND THE ATTACHED OFFERING CIRCULAR, IN WHOLE OR IN PART, IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE U.S. SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed your representation to Deutsche Bank AG, Singapore Branch, Standard Chartered Bank and UBS AG, Hong Kong Branch (collectively, the "**Initial Purchasers**"), that (1) you and any customers you represent are (i) not U.S. Persons (as defined in Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) and are outside the United States and to the extent you purchase the securities described in the attached offering circular, you will be doing so in an offshore transaction pursuant to Regulation S, OR (ii) acting on behalf of, or are qualified institutional buyers ("**QIBs**"), as defined in Rule 144A under the Securities Act; (2) you consent to delivery of the attached offering circular and any amendments or supplements thereto by electronic transmission AND (3) you agree to the foregoing terms and conditions.

OFFERING CIRCULAR **CONFIDENTIAL**

US$300,000,000

China Forestry Holdings Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

7.75% Senior Notes due 2015

Issue Price: 100%

Our 7.75% Senior Notes due 2015 (the "Notes") will bear interest from November 17, 2010 at 7.75% per annum payable semi-annually in arrears on May 17 and November 17 of each year, beginning May 17, 2011. The Notes will mature on November 17, 2015.

The Notes are senior obligations of China Forestry Holdings Co., Ltd. (the "Company"), guaranteed by all of our existing subsidiaries (the "Subsidiary Guarantors"), other than those organized under the laws of the PRC. We refer to the guarantees by the Subsidiary Guarantors as Subsidiary Guarantees. The Company and the Subsidiary Guarantor Pledgors (as defined herein) have agreed to pledge the capital stock of the Restricted Subsidiaries (as defined herein) held by them on a first priority basis to secure the Notes and the Subsidiary Guarantees of such Subsidiary Guarantor Pledgors.

At any time on or after November 17, 2013, we may redeem the Notes, in whole or in part, at the redemption prices specified under "Description of Notes — Optional Redemption". At any time prior to November 17, 2013, we may at our option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of their principal amount plus the Applicable Premium (as defined herein) and accrued and unpaid interest, if any, to the redemption date. At any time prior to November 17, 2013, we may redeem up to 35% of the aggregate principal amount of the Notes, at a redemption price of 107.75% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, using the net cash proceeds from sales of certain kinds of capital stock. Not later than 30 days following the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.

The Notes will be (1) senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (2) at least pari passu in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law), (3) effectively subordinated to any other secured obligations of the Company and the Subsidiary Guarantors to the extent of the value of the assets serving as security therefor, and (4) effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined herein). In addition, applicable law may limit the enforceability of the Subsidiary Guarantees and the pledge of any collateral. See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral."

For a more detailed description of the Notes, see the section entitled "Description of the Notes" beginning on page 146.

Investing in the Notes involves risk. See "Risk Factors" beginning on page 18.

We have received approval-in-principle from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this offering circular. Admission of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company, the Notes, the Subsidiary Guarantees or the Subsidiary Guarantors.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold by the Initial Purchasers only (i) to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A thereunder and (ii) outside the United States in compliance with Regulation S under the Securities Act. For a description of certain restrictions on resale or transfer, see "Transfer Restrictions" beginning on page 219.

It is expected that the delivery of the Notes will be made through the facilities of The Depository Trust Company (the "DTC") on or about November 17, 2010 in New York, New York against payment therefor in immediately available funds.

Joint Bookrunners and Joint Lead Managers (in alphabetical order)

Deutsche Bank **Standard Chartered Bank** **UBS**

The date of this offering circular is November 9, 2010.

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This offering circular does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering circular or that the information contained in this offering circular is correct as of any time after that date.

IN CONNECTION WITH THIS OFFERING, UBS AG, HONG KONG BRANCH, AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT LEVELS OTHER THAN THOSE THAT MIGHT OTHERWISE PREVAIL. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

You should rely only on the information contained in this offering circular. We have not, and Deutsche Bank AG, Singapore Branch, Standard Chartered Bank and UBS AG, Hong Kong Branch (the "Initial Purchasers") have not, authorized any other person to provide you with information that is different. The information in this offering circular is accurate only as of the date on the front cover of this offering circular or otherwise as of the date specifically referred to in connection with the particular information. Our business, financial condition, results of operations and prospects may have changed since that date. Neither the delivery of this offering circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

This offering circular is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes and for the listing of the Notes on the SGX-ST. You should read this offering circular before making a decision on whether to purchase the Notes. You must not use this offering circular for any other purpose, or disclose any information in this offering circular to any other person.

We have prepared this offering circular, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed "Transfer Restrictions" below.

No representation or warranty, express or implied, is made by the Initial Purchasers as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering circular is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Each person receiving this offering circular acknowledges that (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on any Initial Purchaser or any person affiliated with any Initial Purchaser in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, or the Notes (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or any Initial Purchaser.

THE NOTES AND THE SUBSIDIARY GUARANTEES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER UNITED STATES REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. We are not, and the Initial Purchasers are not, making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this offering circular and the offering of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this offering circular comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this offering circular, see the sections headed "Transfer Restrictions" and "Plan of Distribution" below.

This offering circular summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering circular. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We are not making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this offering circular to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of Notes at any time, and the Initial Purchasers reserves the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED 1955, AS AMENDED ("RSA"), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering circular using a number of conventions, which you should consider when reading the information contained herein.

Unless the context otherwise requires in this offering circular, when we use the terms "we," "us," "our," "our company" and words of similar import, we are referring to China Forestry Holdings Co., Ltd. and its consolidated subsidiaries, and where the context refers to any time prior to the completion of the corporate reorganization that we conducted in preparation for our initial public offering and listing of our shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") in December 2009, includes Beijing Zhaolin Forestry Resources Development Co., Ltd., a limited company established in the PRC on August 6, 2001 ("Beijing Zhaolin"), our predecessor entity, and its businesses.

Unless the context otherwise requires in this offering circular, "China" or "PRC" refers to the People's Republic of China, excluding Taiwan, Hong Kong and Macau; "U.S. dollars", "US$" or "USD" refers to the legal currency of the United States; "H.K. dollars" or "HK$" refers to the legal currency of Hong Kong; "RMB" or "Renminbi" refers to the legal currency of China. In addition:

- "CCPEF" means the China Council for the Promotion of Environment and Forestry, a national non-profit association in China managed by the State Forestry Administration ("SFA") and established for promoting the proper use of resources, protection of the environment and sustainable economic development;

- "CFK" means Chandler Fraser Keating Limited, an independent technical consultant we have engaged to value our forests and prepare an independent technical report, a portion of which is set out in Appendix A to this offering circular;

- "Mu" is a measurement of area used in the PRC; 15 Mu is equal to 1 hectare. A hectare is a metric unit of area equal to 10,000 square meters or approximately 2.471 acres; and

- "Harvest rate" or "harvesting rate" means the percentage of total stock volume harvested during a period and is computed as log volume harvested for the period divided by the total stock volume at the end of the period.

Solely for the convenience of the reader, this offering circular contains translations of certain Renminbi and H.K. dollar amounts into U.S. dollars amounts. All such H.K. dollar translations have been made at the rate of HK$7.80 to US$1.00. On November 5, 2010, the noon buying rate for U.S. dollars in The City of New York for cable transfers in H.K. dollars as set forth in the H.10 statistical release of the Federal Reserve Board was HK$7.7520 to US$1.00. All such Renminbi translations have been made at the rate of RMB6.7815 to US$1.00, the noon buying rate for U.S. dollars in The City of New York for cable transfers in Renminbi as set forth in the H.10 statistical release of the Federal Reserve Board on June 30, 2010. On November 5, 2010, the noon buying rate for cable transfers in Renminbi was RMB6.6622 to US$1.00. See "Exchange Rates." No representation is made that Renminbi and H.K. dollar amounts stated herein could have been, or could be, converted into U.S. dollar amounts at such rates or at any other rate.

FORWARD-LOOKING STATEMENTS

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

- our business strategies;
- our forests acquisition plans;
- our capital expenditure plans;
- our operations and business prospects;
- our financial information and data;
- the regulatory environment as well as the industry outlook generally;
- future developments in our industry;
- the general economic trend of the PRC; and
- other statements that are not historical facts.

The words "aim," "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "going forward," "intend," "may," "plan," "potential," "project," "prospective," "seek," "should," "will," "would," and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in "Risk Factors" beginning on page 18, including, without limitation, the following:

- 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;
- we have a limited operating history and a limited track record;
- our results of operations are sensitive to log price fluctuations in the forestry industry;
- substantially all of our forests are currently located in Sichuan and Yunnan and sales of our logs are concentrated in these two provinces;
- we have only recently expanded into Yunnan, plan to make additional forest acquisitions in Yunnan and expand into other provinces in China, and may not be able to meet the demands arising from our rapid expansion;
- we may face increased costs for new forest acquisitions and may not be able to acquire enough immediately harvestable forests;
- we have significant capital commitments, capital expenditures and investments planned for 2010 and 2011;
- we enter into framework agreements for forest acquisitions, which are generally non-binding and we may not be able to enter into definitive acquisition agreements;
- we depend on certain major customers; and
- our inability to obtain logging permits with sufficient logging amounts could reduce our future revenues.

We do not intend to update or otherwise revise the forward-looking statements in this offering circular, whether as a result of new information, future events or otherwise. Because of such risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this offering circular might not occur in the way we expect, or at all. You should not place undue reliance on any forward-looking information. All forward-looking statements contained in this offering circular are qualified in their entirety by reference to this cautionary statement.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the Notes, we are required to furnish upon request of a holder of the Notes and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability and each current Subsidiary Guarantor is incorporated either in the British Virgin Islands or Hong Kong. All or substantially all of our directors and officers reside outside the United States (principally in the PRC and Hong Kong). All or a substantial portion of our assets and of such persons' assets are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon us or such persons, or to enforce against us or such persons judgments obtained in U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

We have been advised by our Cayman Islands special counsel, Conyers Dill & Pearman, that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that: (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

We have been advised by our British Virgin Islands ("BVI") special counsel, Conyers Dill & Pearman, that the courts of the BVI would recognize as a valid judgment, a final and conclusive judgment in personam obtained in the United States courts against us under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment, (b) such courts did not contravene the rules of natural justice of the BVI, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the BVI, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the BVI and (f) there is due compliance with the correct procedures under the laws of the BVI.

According to our Hong Kong counsel, Orrick, Herrington & Sutcliffe, there are currently no reciprocal enforcement arrangements for judgments between the United States and Hong Kong. However, a judgment of a court in the United States may be enforced at common law in Hong

Kong courts by an action or counter-claim on that judgment for the amount due thereunder if the judgment is: (1) for a liquidated sum of money (not being taxes or similar charges to a foreign government taxing authority or a fine or other penalty); and (2) final and conclusive on the merits of the claim, but not otherwise.

Such a judgment (in whole or in part) may not, in any event, be so enforced in Hong Kong if:

(a) it was obtained by fraud;

(b) the proceedings in which the judgment was obtained were opposed to natural justice;

(c) its enforcement or recognition would be contrary to Hong Kong public policy;

(d) the relevant court of the United States was not jurisdictionally competent according to Hong Kong law;

(e) the judgment was in conflict with a prior Hong Kong judgment; or

(f) the judgment is in breach of the provisions of the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinances (Chapter 46 of the Laws of Hong Kong).

We have also been advised by our PRC counsel, Commerce & Finance Law Offices, that there is currently no reciprocal treaty between the United States and the PRC on judicial assistance in civil and commercial affairs. Under the PRC Civil Procedures Law, if a legally effective judgment or written order made by a foreign court requires recognition and enforcement by PRC courts, the party concerned may directly apply for recognition and enforcement to the intermediate PRC courts which have jurisdiction. Under the PRC Civil Procedures Law, PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions, provided that the foreign judgments do not violate the basic principles of laws of the PRC or its sovereignty, security or social and public interest. We have also been advised by our PRC counsel that there is doubt as to the enforceability in the PRC, in original actions or in actions for enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

We and each of the Subsidiary Guarantors will appoint Law Debenture Corporate Services Inc., 400 Madison Avenue, 4th Floor, New York, New York as our respective agent to receive service of process with respect to any action brought against us or the Subsidiary Guarantors in the United States federal courts located in the Borough of Manhattan, The City of New York under the federal securities laws of the United States or of any state of the United States or any action brought against us or the Subsidiary Guarantors in the courts of the State of New York in the Borough of Manhattan, The City of New York under the securities laws of the State of New York.

PRESENTATION OF FINANCIAL INFORMATION

Our financial information in this offering circular have been prepared in accordance with the International Financial Reporting Standards, including the International Accounting Standards and the interpretations thereof ("IFRS") by the International Accounting Standard Board, which differs in certain respects from accounting principles generally accepted in other countries, including the generally accepted accounting principles in the United States ("U.S. GAAP"). We have made no attempt to quantify the impact of those differences. Certain financial figures have been rounded to the nearest thousand. Any discrepancies in any table or elsewhere in this offering circular between totals and sums of amounts listed herein are due to rounding adjustments.

Our reporting currency is Renminbi.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering circular, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

The Company

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 "Business — 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 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 assets consist generally of the trees in our forests but do not include the underlying land). Under our policy, the fair value of plantation assets less costs to sell 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.

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 Industry

China has the fifth largest forest area in the world in 2010, according to the Food and Agriculture Organization for the United Nations, or the FAO. However, forest resources are more limited in China compared to other major forest owning nations, primarily due to China's history of forest exploitation and large population. China's per capita forest area is only 0.2 hectare, as compared to the world average of 0.6 hectare. As a result, China historically has been a net importer of forest products. With China's increasing urbanization rate and growing consumption and affluence of its population, its demand for timber is expected to remain strong, driven primarily by the growth in the construction and furniture industry. According to CFK, China is expected to remain a major net importer and the largest importer of wood for the foreseeable future, with timber imports likely to remain at 20% of total timber consumption for the next five years. Such a domestic timber shortage should also lend strong support to the prices of domestically produced timber, which are expected to increase in the next few years, according to CFK.

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 twenty years, and are strategically located in Yunnan and Sichuan provinces in Southwest China. 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. A further 23.6% of our forests are covered by hardwood trees, including primarily birch and beech. The remaining forests are covered by a mix of fir, cedec, birch, pine and alder. Hardwood prices are typically higher than softwood prices.

- ***Strong track record of cost-effective forest acquisitions.*** 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.

- ***Focused and highly profitable business model.*** We focus our business on up-stream forest management and sales of logs. We typically outsource harvesting activities to third parties, and through roadside delivery our customers are responsible for the transportation of the harvested logs from our forests. Our up-stream focused business model and operational outsourcing help us to reduce our operating costs and maximize the utilization of our resources. Furthermore, unlike some of our competitors who primarily rely on leased forest land use rights, we purchase the forests together with the forest use rights, which 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 rate was 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 further increase our operations and sales by relying on our existing forests.

- ***Sustainable, socially responsible and environmentally friendly forest management.*** To ensure the quality and 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. Moreover, 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. We believe that 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. 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 and policies about the development of the forestry industry in China and gain valuable industry insight.

Our Strategy

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

- ***Continue to acquire high quality forest resources cost effectively.*** We plan to continue to acquire high quality forest resources cost effectively and will continue to look for suitable forest acquisition opportunities in Yunnan and Sichuan. In addition, we intend to replicate our experience in Yunnan and Sichuan and expand our forest resources to additional provinces, including Chongqing and Guizhou, in Southwest China. To further increase the attractiveness of our acquisition offers to local governments, we also plan to team with downstream business partners in the acquisitions. We believe such partnerships will increase local employment prospects and will be favored by local governments, giving us a competitive advantage.

- ***Increase annual harvest rate.*** Our overall harvest rates were 1.5%, 1.8% and 1.0% in 2008, 2009 and the six months ended June 30, 2010, respectively, largely due to our low harvest rate in newly-acquired forests in Yunnan province. We intend to gradually increase the harvest rate in our Yunnan forests. As our harvest rate in new forests is partially limited by the availability of infrastructure as we move further into the center of a forest, we intend to invest in the construction of roads to facilitate tree harvesting and transportation. In addition, to support our planned increase in annual harvest rates, we intend to further expand our sales and marketing team to increase the volume of customer orders and log sales.

- ***Establish long-term sales and cooperation arrangements with large customers.*** Historically, 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. Similarly, 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 will improve 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 team by recruiting additional quality management personnel with experience in the forestry industry. In addition, we intend to enhance our forest management information system, which will provide us with greater operational control of our forests through the use of more sophisticated information technology.

- ***Continue practicing sustainable forest management through research and development and adhering to high environmental standards.*** We believe that environmentally sound forest management practices will ensure the sustainable development of forest resources and provide greater predictability in forest management. We intend to conduct our research primarily through collaboration with research institutions. We also plan to establish a research center in 2011 to conduct research on advanced forestry management technology and practices, developing 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 yield 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 industry 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 and selectively expand into downstream opportunities.*** We intend to continue to focus on our core competencies in up-stream forest management and timber harvesting. 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 into sawn wood. 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 improved financial performance.

Our Corporate Information

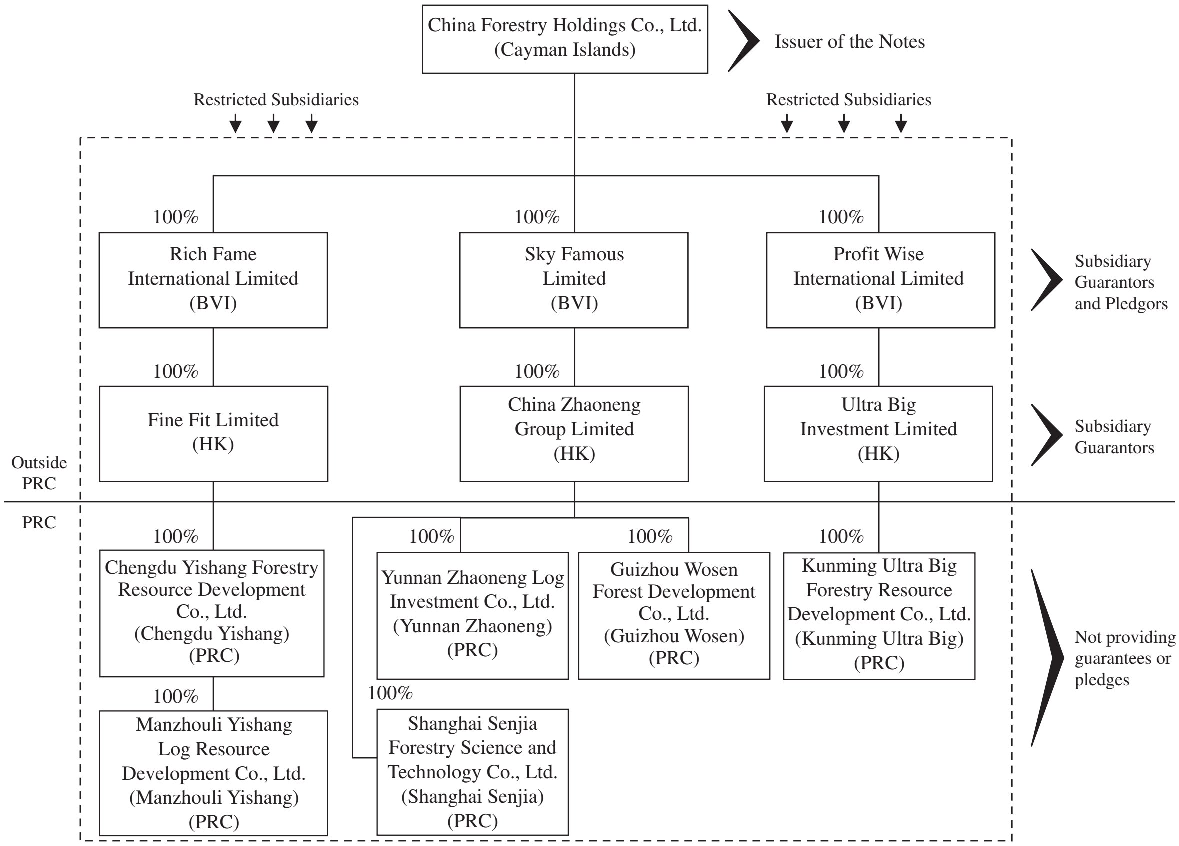
We were incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on December 21, 2007. We have been registered as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance. Our shares were listed and posted for trading on the Hong Kong Stock Exchange in December 2009.

Our principal place of business is located at 2301, 23rd Floor, Tower B, Vantone Centre, Jia 6 Chaowaidajie, Chaoyang District, Beijing, the People's Republic of China, and our telephone number is (86-10) 6415-8117.

Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our telephone number at our registered office is (345) 945-3902.

Our Corporate Structure

The following diagram illustrates our corporate structure as of the date of this offering circular. For more details, see "Corporate Structure".



THE OFFERING

Terms used in this summary and not otherwise defined shall have the meanings given to them in "Description of the Notes."

Issuer	China Forestry Holdings Co., Ltd.
Notes Offered......................................	US$300,000,000 aggregate principal amount of 7.75% Senior Notes due 2015.
Offering Price	100% of the principal amount of the Notes.
Maturity Date......................................	November 17, 2015.
Interest..	The Notes will bear interest from and including November 17, 2010 at the rate of 7.75% per annum, payable semi-annually in arrears.
Interest Payment Dates.........................	May 17 and November 17 of each year, commencing May 17, 2011.
Ranking of the Notes	The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to certain limitations described under the caption "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral" and "Description of the Notes — The Subsidiary Guarantees;"
- effectively subordinated to any other secured obligations of the Company and the Subsidiary Guarantors, to the extent of the value of the assets serving as security therefore; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

After the pledge of the Collateral by the Company and the Subsidiary Guarantor Pledgors and subject to certain limitations described under "Risk Factors — Risks Relating to the Subsidiary Guarantees and Collateral," the Notes will:

- be entitled to a first priority lien on the Collateral pledged by the Company and the Subsidiary Guarantor Pledgors (subject to any Permitted Liens);

	• rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law); and • rank effectively senior in right of payment to unsecured obligations of the Subsidiary Guarantor Pledgors with respect to the value of the Collateral pledged by each Subsidiary Guarantor Pledgor securing the Notes (subject to priority rights of such unsecured obligations pursuant to applicable law).
Subsidiary Guarantees	Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. A Subsidiary Guarantee may be released in certain circumstances. See "Description of the Notes — Release of the Subsidiary Guarantees." The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC. All of the initial Subsidiary Guarantors are holding companies that do not have significant operations or real property assets. See "Risk Factors — Risks Relating to the Subsidiary Guarantees — Our initial Subsidiary Guarantors do not currently have significant operations." Any future Restricted Subsidiary (other than subsidiaries organized under the laws of the PRC) will provide a guarantee of the Notes promptly upon becoming a Restricted Subsidiary.
Ranking of Subsidiary Guarantees	The Subsidiary Guarantee of each Subsidiary Guarantor: • is a general obligation of such Subsidiary Guarantor; • is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor; • is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and • ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law).

After the pledge of the Collateral (as described below) by the Company and the Subsidiary Guarantor Pledgors, the Subsidiary Guarantees of each Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral pledged by such Subsidiary Guarantor Pledgor (subject to any permitted liens); and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee.

See "Risk Factors — Risks Relating to the Subsidiary Guarantees and Collateral."

Security to be Granted .... The Company has agreed, for the benefit of the holders of the Notes, to pledge, or cause the initial Subsidiary Guarantor Pledgors to pledge, as the case may be, the Capital Stock of each initial Subsidiary Guarantor (collectively, the "Collateral") in order to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor Pledgor under its Subsidiary Guarantee. The Collateral securing the Notes and the Subsidiary Guarantees may be released or reduced in the event of certain asset sales and certain other circumstances. In addition, the Company and each Subsidiary Guarantor Pledgor may incur Permitted Pari Passu Secured Indebtedness which would be secured by the Collateral on a pari passu basis with the Notes and the Subsidiary Guarantees. See "Description of the Notes — Security."

Optional Redemption............................ At any time on or after November 17, 2013, we may redeem the Notes, in whole or in part, at the redemption prices specified under "Description of Notes — Optional Redemption".

At any time prior to November 17, 2013, we may at our option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of their principal amount plus the Applicable Premium (as defined herein) and accrued and unpaid interest, if any, to the redemption date. At any time prior to November 17, 2013, we may redeem up to 35% of the aggregate principal amount of the Notes, at a redemption price of 107.75% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, using the net cash proceeds from sales of certain kinds of capital stock.

Repurchase of Notes Upon a Change of Control Triggering Event.............	Not later than 30 days following the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of repurchase.
Redemption for Taxation Reasons.........	Subject to certain exceptions and as more fully described herein, the Company may redeem the Notes, as a whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company for redemption, if the Company or a Subsidiary Guarantor would become obligated to pay certain additional amounts as a result of certain changes in specified tax laws or certain other circumstances. See "Description of the Notes — Redemption for Tax Reasons."
Covenants	The Notes, the Indenture governing the Notes and the Subsidiary Guarantees will limit the Company's ability and the ability of its Restricted Subsidiaries to, among other things: • incur or guarantee additional indebtedness and issue disqualified or preferred stock; • declare dividends on its capital stock or purchase or redeem capital stock; • make investments or other specified restricted payments; • issue or sell capital stock of Restricted Subsidiaries; • guarantee indebtedness of Restricted Subsidiaries; • sell assets; • create liens; • enter into sale and leaseback transactions; • enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans; • enter into transactions with shareholders or affiliates; • effect a consolidation or merger; and • engage in different business activities.

	These covenants are subject to a number of important qualifications and exceptions described in "Description of the Notes — Certain Covenants."
Transfer Restrictions	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."
Form, Denomination and Registration...	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US$100,000 of principal amount and integral multiples of US$1,000 in excess thereof and will be initially represented by one or more global notes registered in the name of a nominee of The Depository Trust Company.
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear and Clearstream, Luxembourg. For a description of certain factors relating to clearance and settlement, see "Description of the Notes — Book-Entry; Delivery and Form."
Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds on or about November 17, 2010 which the Company expects will be the fifth business day following the date of this offering circular referred to as "T+5". You should note that initial trading of the Notes may be affected by the T+5 settlement. See "Plan of Distribution."
Trustee	Citicorp International Limited
Paying Agent, Transfer Agent and Registrar	Citibank, N.A., London Branch
Listing	Approval-in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of US$200,000 for so long as the Notes are listed on the SGX-ST. So long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Company will appoint and maintain a paying agent in Singapore where the Notes may be presented or surrendered for payment or redemption, in the event that the Notes are issued in definitive form. In addition, an announcement of such issue will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive notes, including details of the paying agent in Singapore.

Governing Law	The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York. The relevant pledge documents will be governed under the laws of the jurisdiction in which the relevant Subsidiary Guarantor Pledgee is incorporated.
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see "Risk Factors."

CUSIP/ISIN

	CUSIP	ISIN	Common Code
144A Global Notes	16946LAA4	US16946LAA44	055992797
Regulation S Global Notes	G2113AAA8	USG2113AAA81	055976767

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The following summary of our consolidated income statements (other than U.S. dollar amounts, which are provided for convenience only) for the years ended December 31, 2007, 2008 and 2009, and the six months ended June 30, 2010 and summary of our 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 included elsewhere in this offering circular. The summary of our consolidated income statement for the six months ended June 30, 2009, has been derived from an accountant's report which has been published but not included in this offering circular. 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 auditor, 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

	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)						
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

	Years ended December 31			Six months ended June 30	
RMB (in millions except for percentages)	2007	2008	2009	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

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. The historical financial statements included in this offering circular 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$138.1 million and HK$226.5 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.

Risks Related to the Notes

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Notes will not be guaranteed by any current or future PRC subsidiaries. Our primary assets are ownership interests in our PRC subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries. The Subsidiary Guarantors do not have material operations. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our subsidiaries.

Creditors, including trade creditors of Non-Guarantor Subsidiaries and any holders of preferred shares in such entities, would have a claim on the Non-Guarantor Subsidiaries' assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of our Non-Guarantor Subsidiaries, including their obligations under guarantees they have issued or will issue in connection with our business operations, and all claims of creditors of our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of June 30, 2010, our PRC subsidiaries did not have any outstanding indebtedness and had capital commitments in the amount of RMB4.2 billion (US$619.3 million). The Notes and the Indenture permit us, the Subsidiary Guarantors and our Non-Guarantor Subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. In addition, our secured creditors or those of any Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor securing the related obligations over claims of holders of the Notes.

We may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations. After the offering of the Notes we will have a substantial amount of indebtedness.

Future substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

If we or our subsidiaries incur substantial additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, there is no assurance that we will be able to generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the Indenture prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratio requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Such restrictions in the Indenture may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business or the general economy.

Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments or agreements of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside at least 10% of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as loans, advances or cash dividends until the aggregate amount of such reserves reaches 50% of its respective registered capital. In addition, dividends onward paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. As a result of such restrictions, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes or satisfy the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees.

Our ability to repay the Notes or interest on the Notes is subject to risks presented by fluctuations in exchange rates between Renminbi and other currencies, particularly the U.S. dollar.

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi.

There remains significant international pressure on the PRC government to reform it exchange rate system. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. If such reforms were implemented and resulted in devaluation of Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected because of our substantial U.S. dollar denominated indebtedness. Such a devaluation could also adversely affect the value, translated or converted into U.S. dollars or otherwise, of our earnings and our ability to satisfy our obligations under the Notes.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between Renminbi and other currencies. To date, we have not entered into any hedging transactions to reduce our exposure to such risks. Following the offering of the Notes, we may enter into foreign exchange or interest rate hedging arrangements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging arrangements may require us to pledge or transfer cash and other collateral to secure our obligations under the arrangements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging arrangements permitted under the Indenture, and these arrangements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such hedging arrangements.

We may not be able to repurchase the Notes upon the occurrence of a Change of Control Triggering Event.

We must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See the section entitled "Description of the Notes."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have sufficient available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an Event of Default under the Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of Change of Control Triggering Event for purposes of the Indenture does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control Triggering Event for purposes of the Indenture also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

The insolvency laws of the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar.

Because we are incorporated under the laws of the Cayman Islands and some of the Subsidiary Guarantors are incorporated under the laws of the British Virgin Islands, an insolvency proceeding relating to us or any such Subsidiary Guarantor, even if brought in the United States, would likely involve Cayman Islands or British Virgin Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, our other Subsidiary Guarantors are incorporated or may be incorporated in Hong Kong and the insolvency laws of Hong Kong may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. The Subsidiary Guarantors, as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of the United States and other jurisdictions with which the holders of the Notes are familiar. You should analyze the risks and uncertainties carefully before you invest in our Notes.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes depends solely upon the ability of our PRC subsidiaries to obtain and remit sufficient foreign currency to pay dividends to us and, if applicable, to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Indenture or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, future debt agreements may contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under future debt agreements. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Notes, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The Indenture includes a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;

- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than permitted business;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. Although we have received approval-in-principle for the listing and quotation of the Notes on the Official List of the SGX-ST, we cannot assure you that we will obtain or be able to maintain a listing on the SGX-ST, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the U.S. Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the U.S. Securities Act or in transactions not subject to or exempt from registration under the U.S. Securities Act. See the section entitled "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The ratings assigned to the Notes and our corporate ratings may be lowered or withdrawn in the future.

The Notes have been assigned a rating of "B+" by Standard and Poor's Ratings Services and "Ba3" by Moody's Investors Service. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. In addition, we have been assigned a long-term corporate credit rating of "B+" with a stable outlook by Standard and Poor's Rating Services and a corporate family rating of "Ba3" with a stable outlook by Moody's Investors Service. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

Certain transactions that constitute "connected transactions" under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("the Hong Kong Stock Exchange Listing Rules") will not be subject to the "Limitation on Transactions with Shareholders and Affiliates" covenant.

Our shares are listed on the Hong Kong Stock Exchange and we are required to comply with its Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries on the one hand, and a "connected person" of such listed company on the other hand, is a "connected transaction" that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of "connected person" to a listed company includes, among others, any director, chief executive or 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of "connected person" also captures "associates," which include, among others, (a) any subsidiary of such "connected person," (b) any holding company of such "connected person" and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The "Limitation on Transactions with Shareholders and Affiliates" covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 10% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they are subject to the independent shareholders' requirement under the Listing Rules. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers' certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows, proposals for new investments, strategic alliances and/or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this offering circular has been prepared in accordance with IFRS, which differ in certain respects from U.S. GAAP and generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this offering circular. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between IFRS and U.S. GAAP or between IFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and U.S. GAAP or between HKFRS and other GAAPs and how those differences might affect the financial information contained in this offering circular.

We will follow the applicable corporate disclosure standards for debt securities listed on the SGX-ST, which standards may be different from those applicable to companies in certain other countries.

We will be subject to reporting obligations in respect of the Notes to be listed on the SGX-ST. The disclosure standards imposed by the SGX-ST may be different than those imposed by securities exchanges in other countries or regions such as the United States or Hong Kong. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

Risks Relating to the Subsidiary Guarantees and the Collateral

Our initial Subsidiary Guarantors do not currently have significant operations and certain Subsidiary Guarantees may in some cases be replaced by limited-recourse guarantees.

We conduct substantially all of our business operations through our PRC subsidiaries, but none of our current PRC subsidiaries and their direct PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee either upon issuance of the Notes or at any time thereafter. No future subsidiaries that are organized under the laws of PRC or their future PRC or non-PRC subsidiaries will provide a Subsidiary Guarantee at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries. See the section entitled "Description of the Notes — The Subsidiary Guarantees" for a list of the Non-Guarantor Subsidiaries. Moreover, the charge over the shares of the offshore subsidiaries of the Company will not include the capital stock of our existing or future Non-Guarantor Subsidiaries, including our PRC subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so. See the section entitled "— Risks Relating to the Notes — We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries."

The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency or unfair preference or similar laws in the Cayman Islands, the British Virgin Islands, Hong Kong and other jurisdictions where future Subsidiary Guarantors may be established, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;

- was insolvent or rendered insolvent by reason of the incurrence of such guarantee;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the applicable jurisdiction. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its properties at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debts as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantor. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee as it relates to such Subsidiary Guarantor voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a Subsidiary Guarantee, subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or holds the Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor and would solely be creditors of us and any Subsidiary Guarantors whose guarantees have not been voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

The pledge of certain Collateral may in some circumstances be voidable.

The pledge of the Collateral may be voidable as a preference under insolvency or fraudulent transfer or similar laws of Hong Kong, the Cayman Islands and the British Virgin Islands at any time within six months of the perfection of the pledge or, under some circumstances, within a longer period. Pledges of capital stock of future Subsidiary Guarantors may also be voidable as a preference under relevant insolvency or fraudulent transfer or similar laws. In addition, the pledge of certain Collateral may be voided based on the analysis set forth under the section entitled "— The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees" above.

If the pledges of the Collateral were to be voided for any reason, holders of the Notes would have only an unsecured claim against us and the Subsidiary Guarantor Pledgors.

The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes and other pari passu secured indebtedness.

The Collateral will consist only of the capital stock of the certain of initial Subsidiary Guarantors. The security interest in respect of certain Collateral may be released upon the disposition of such Collateral and any proceeds from such disposition may be applied, prior to repaying any amounts due under the Notes, to repay other debt or to make investments in properties and assets that will not be pledged as additional Collateral.

The ability of the Trustee, on behalf of the holders of the Notes, to foreclose on the Collateral upon the occurrence of an Event of Default or otherwise will be subject in certain instances to perfection and priority status. Although procedures will be undertaken to support the validity and enforceability of the security interests, we cannot assure you that the Trustee or holders of the Notes will be able to enforce the security interest.

The value of the Collateral in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the Collateral have been prepared by or on behalf of us in connection with this offering of the Notes. Accordingly, we cannot assure you that the proceeds of any sale of the Collateral following an acceleration of the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due and payable on the Notes. By its nature, the Collateral, which consists solely of the capital stock of any existing or future Subsidiary Guarantor, is likely to be illiquid and is unlikely to have a readily ascertainable market value. Likewise, we cannot assure you that the Collateral will be saleable or, if saleable, that there will not be substantial delays in its liquidation.

The Collateral will be shared on a *pari passu* basis by the holders of the Notes and may be shared on a *pari passu* basis with holders of other indebtedness ranking *pari passu* with the Notes that we may issue in the future. Accordingly, in the event of a default on the Notes or the other secured indebtedness and a foreclosure on the Collateral, any foreclosure proceeds would be shared by the holders of secured indebtedness in proportion to the outstanding amounts of each class of such secured indebtedness. The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the obligations of the Company and each of the Subsidiary Guarantor Pledgors under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes or other *pari passu* indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and the other estimated expenses payable in connection with this offering, will be approximately US$292.0 million. We intend to use the net proceeds primarily for forest acquisitions and the remainder for general corporate purposes. Pending application of the net proceeds of the offering, we intend to invest the net proceeds in Renminbi or non-Renminbi denominated bank deposits, money market instruments, certificates of deposit, time deposits or other short-term investments that are defined as "Temporary Cash Investments" in the "Description of the Notes".

In utilizing the proceeds of this offering, as an offshore holding company, we are permitted, under PRC regulations, to provide funding to our PRC subsidiaries only through loans or capital contributions. Subject to satisfaction of applicable government registrations and approval requirements, we may extend loans or make additional capital contributions to our PRC subsidiaries to fund their capital expenditures or working capital. We may be unable to obtain these government registrations or approvals on a timely basis, if at all. See "Risk factors — Risks related to the PRC — 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."

EXCHANGE RATES

PRC

The People's Bank of China, or the PBOC, sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi with reference to a basket of currencies in the market during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration for Foreign Exchange and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC authorized the China Foreign Exchange Trading Center, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 AM each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On May 18, 2007, the PBOC enlarged, effective on May 21, 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the People's Bank of China. 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 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 following table sets forth (1) the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for and as of the period ends indicated through December 31, 2009 and (2) the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board for and as of the period ends indicated from and after January 1, 2010:

	Noon Buying Rate			
Period	**Period End**	**Average[(1)]**	**High**	**Low**
	(RMB per US$1.00)			
2005	8.0702	8.1826	8.0702	8.2765
2006	7.8041	7.9579	7.8041	8.0702
2007	7.2946	7.5806	7.2946	7.8127
2008	6.8225	6.9193	6.7800	7.2946
2009	6.8259	6.8307	6.8176	6.8470
2010				
May	6.8305	6.8275	6.8245	6.8310
June	6.7815	6.8184	6.7815	6.8323
July	6.7735	6.7762	6.7709	6.7807
August	6.8069	6.7872	6.7670	6.8169
September	6.6905	6.7396	6.6869	6.8102
October	6.6705	6.6675	6.6397	6.6912

(1) Annual averages are calculated by averaging the rates on the last business day of each month during the relevant year. Monthly averages are calculated by averaging the daily rates during the relevant monthly period.

CAPITALIZATION

You should read this section in conjunction with "Management's Discussion and Analysis of financial Condition and Results of Operation" and our historical financial information included in this offering circular.

The following table sets forth our cash and cash equivalents, borrowings, our total stockholders' equity and our total capitalization as of June 30, 2010:

- on an actual basis; and
- as adjusted to give effect to this offering after deducting underwriting discounts and commissions and other estimated expenses of the offering.

The as adjusted information below is illustrative only and does not take into account any changes in our capitalization after June 30, 2010 other than to give effect to the receipt by us of the estimated net proceeds from the offering.

	As of June 30, 2010			
	Actual		**As adjusted**	
	RMB	**US$**	**RMB(1)**	**US$**
	(in millions)		**(in millions)**	
Cash and cash equivalents	1,535	226	3,513	518
Borrowings:				
7.75% Senior Notes due 2015 offered hereby	—	—	2,034	300
Total shareholders' equity	9,863	1,454	9,863	1,454
Total capitalization(2)	9,863	1,454	11,897	1,754

(1) The estimated net proceeds to us from this offering and borrowings have been translated into RMB at the rate of RMB6.7815 to U.S.$1.00.

(2) Total capitalization equals borrowings plus total shareholders' equity.

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 included elsewhere in this offering circular. 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 but not included in this offering circular. 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			Six months ended June 30	
	2007	2008	2009	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 Jinping Changsheng Xinglv Forest Co., Ltd. ("Guizhou Jinping"), 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 Jinping 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 the audited and unaudited consolidated financial statements and the related notes thereto, which are included in this offering circular. 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" and elsewhere in this offering circular.

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 hereto as Appendix A, 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

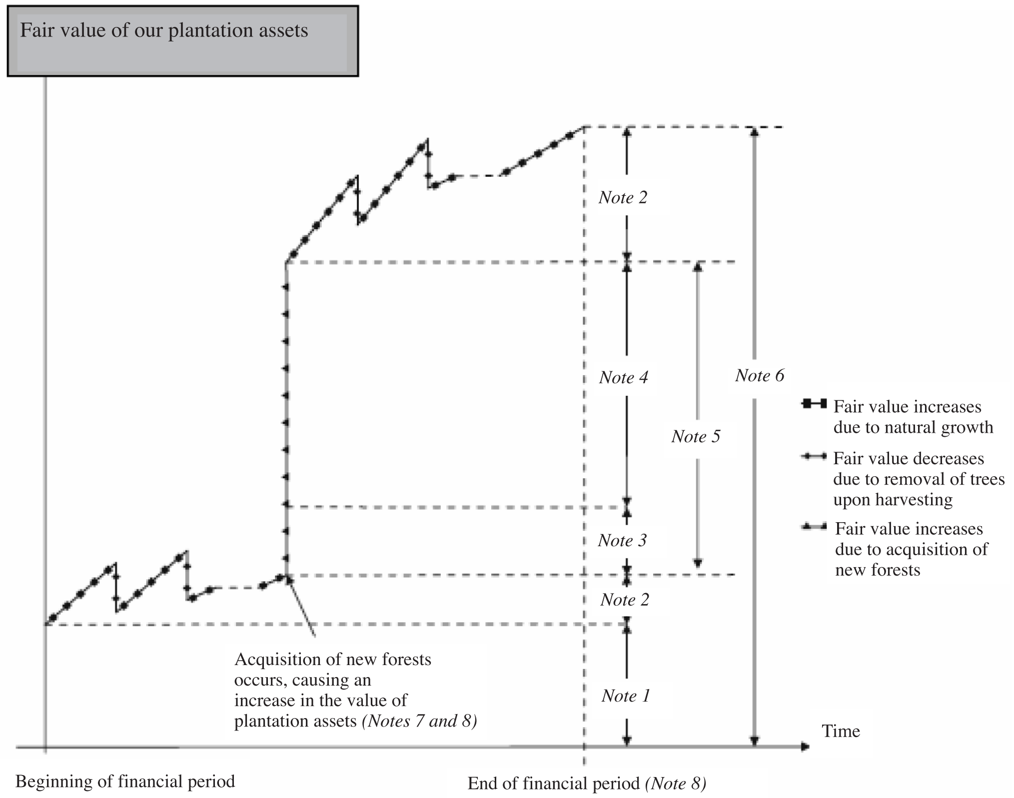
We acquired the Yunnan Luxi/Shuangjiang forest in March 2008 and the Yunnan Wenshan forest in July 2008. In the first half of 2008, we commenced harvesting activities in the Sichuan forests that we acquired in the second half of 2007 and in the Yunnan Luxi/Shuangjiang forest. Therefore, throughout 2008 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 RMB681.3 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$138.1 million and HK$226.5 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

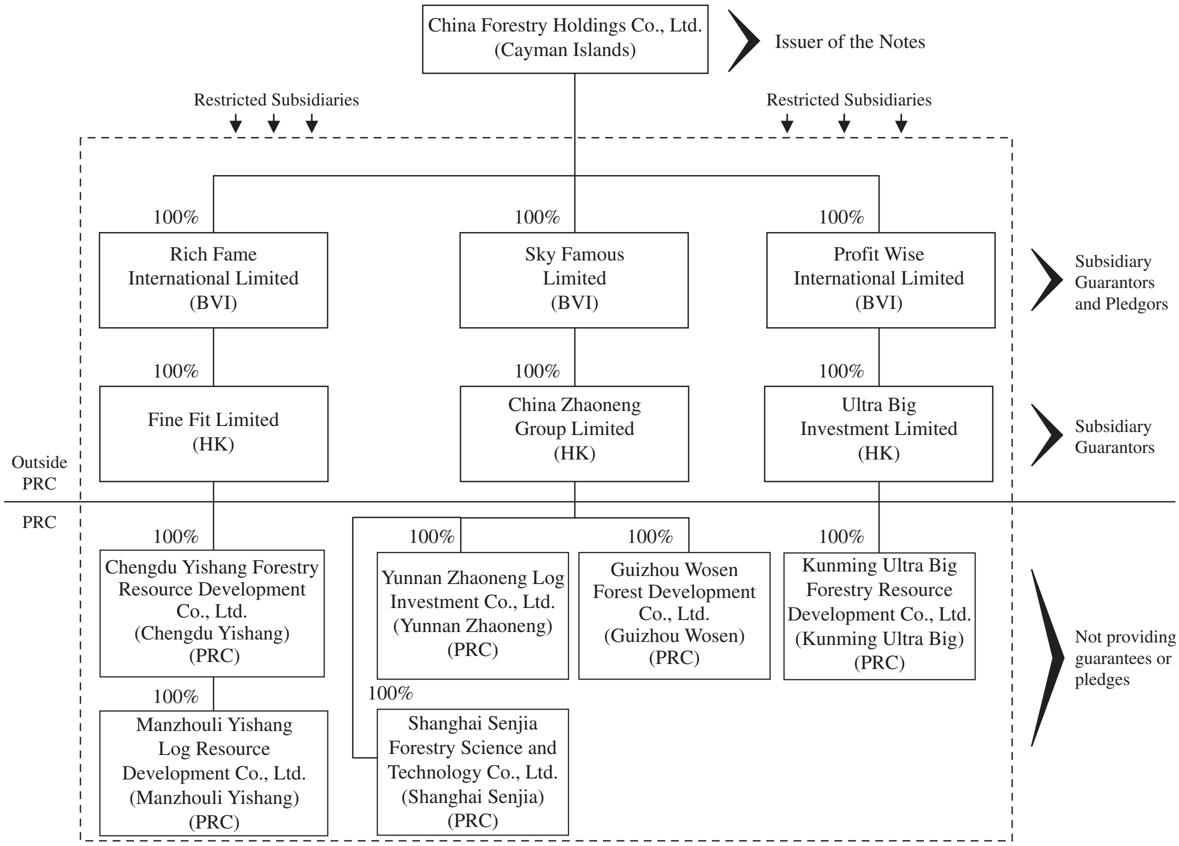
Our sales are not made on credit terms, thus our customer credit risk is insignificant. Our customers pay for the entire order upfront prior to our delivery of the logs. In the future, as our business operations increase in complexity, we may offer extended credit periods to certain customers if needed. 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 offering circular:



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:

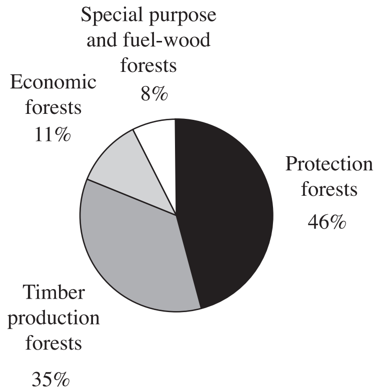
- *Protection forests*, which are for the conservation of soil and water, protection of infrastructure and agriculture, or protection from wind, sand or fire;

- *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:



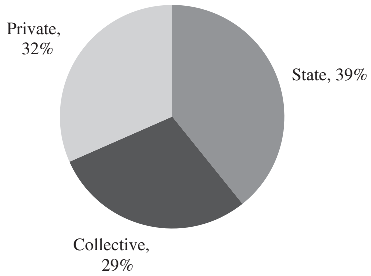
Source: CFK Report.

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:

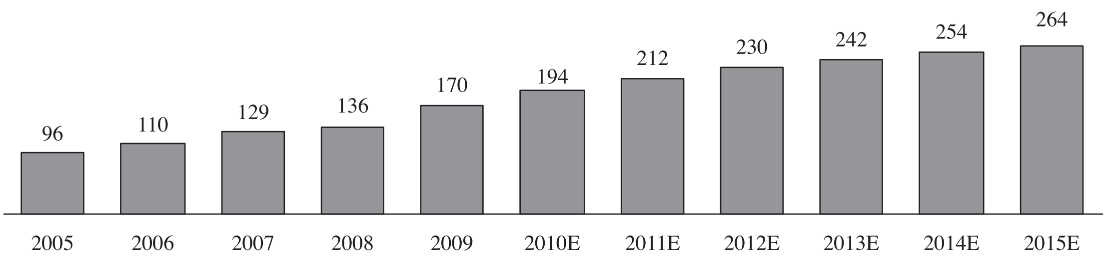
- *Lumber,* which is pieces of solid wood produced by sawing up round logs;
- *Blockboard,* which is solid wood panels produced by gluing the residue round log pieces together, respectively;
- *Plywood,* which is laminated sheets of wood; and
- *Reconstituted panels,* which are fibreboard and particleboard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

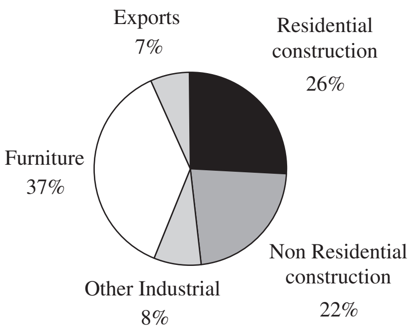
Note

(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.

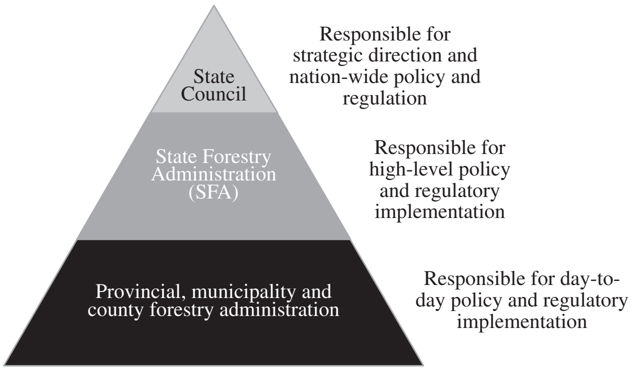
Imported log prices generally increased from 2005 to 2008, primarily due to strong demand and the passing on of higher costs. Imported log prices declined in 2009 compared to 2008 as a result of the global financial crisis. In contrast, domestic log prices remained relatively stable. In CFK's view, this 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.

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

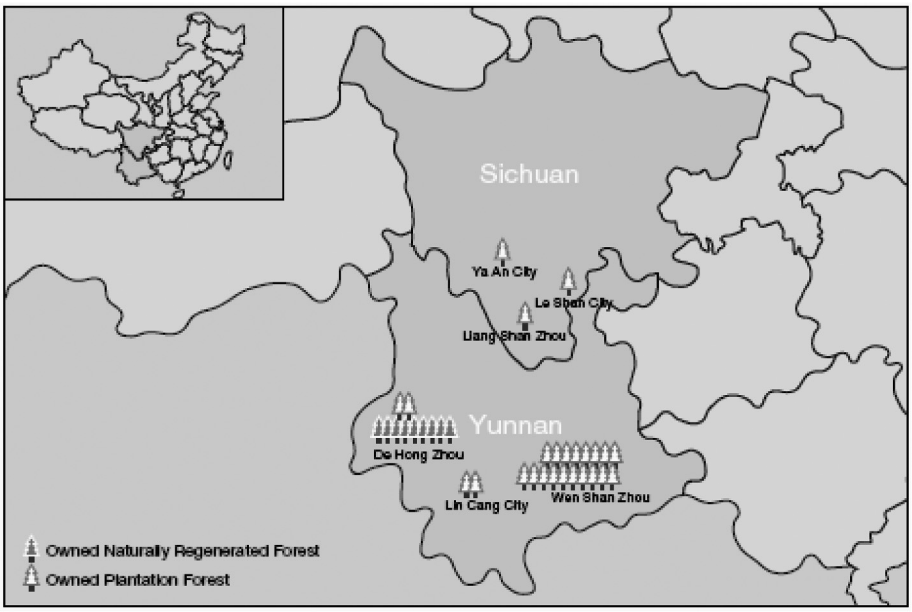
We intend to continue to focus on our core competencies in up-stream forest management and timber harvesting. We believe that supply shortfall of logs in China will continue in the near future, providing a favorable business environment for our up-stream focused operations. We also believe that the accommodating 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 THE NOTES

For purposes of this "Description of the Notes," the term "Company" refers to China Forestry Holdings Co., Ltd., a company incorporated with limited liability under the laws of the Cayman Islands, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company which guarantees the Notes is referred to as a "Subsidiary Guarantor," and each such guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an indenture (the "Indenture"), to be dated as of the Original Issue Date, among the Company, the Subsidiary Guarantors, as guarantors, and Citicorp International Limited, as trustee (the "Trustee").

The following is a summary of certain provisions of the Indenture, the Notes, the Subsidiary Guarantees and the Security Documents. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available on or after the Original Issue Date during normal office hours at the corporate trust office of the Trustee at 39th Floor, ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

The registered Holder of a Note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption "— The Subsidiary Guarantees" and in "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral"; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below).

In addition, on the Original Issue Date, subject to the limitations described in "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral," the Notes will be secured by the Collateral as described below under the caption "— Security" and will:

- be entitled to a First Priority Lien on the Collateral (subject to any Permitted Liens); and
- rank effectively senior in right of payment to unsecured obligations of the Company with respect to the value of the Collateral pledged by the Company securing the Notes (subject to any priority rights of such unsecured obligations pursuant to applicable law).

The Company will issue US$300 million aggregate principal amount in this offering. The Notes will mature on November 17, 2015, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "— Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued. The Notes will bear interest at 7.75% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on May 17 and November 17 of each year (each an "Interest Payment Date"), commencing May 17, 2011.

Interest on the Notes will be paid to Holders of record at the close of business on May 2 and November 2 immediately preceding an Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of or premium (if any) or interest on the Notes is not a Business Day in the relevant place of payment, then payment of principal or premium (if any) or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US$100,000, and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose in Hong Kong (which initially will be the corporate trust administration office of the Trustee, currently located at 39th Floor, ICBC Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, at the option of the Company, payment of interest may be made by check mailed at the expense of the Company to the address of the Holders as such address appears in the Note register. Interest payable on the Notes held through DTC will be available to DTC participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

On the Original Issue Date, the initial Subsidiary Guarantors will consist of Rich Fame International Limited, Fine Fit Limited, Sky Famous Limited, China Zhaoneng Group Limited, Profit Wise International Limited and Ultra Big Investments Limited which are all of the Restricted Subsidiaries other than the Restricted Subsidiaries organized under the laws of the PRC. The initial Subsidiary Guarantors all are intermediate holding companies and do not have significant operations or assets. The Restricted Subsidiaries that are organized under the laws of the PRC and as such are not initial Subsidiary Guarantors will consist of Chengdu Yishang Forestry Resource Development Co., Ltd., Kunming Ultra Big Forestry Resource Development Co., Ltd., Yunnan Zhaoneng Log Investment Co., Ltd., Guizhou Wosen Forest Development Co., Ltd., Shanghai Senja Forestry and Technology Co., Ltd. and Manzhouli Yishang Log Resource Development Co., Ltd. and are collectively referred to herein as the "Non-Guarantor Subsidiaries."

None of the existing or future Restricted Subsidiaries organized under the laws of the PRC will provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that the Restricted Subsidiaries organized under the laws of the PRC may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non-Guarantor Subsidiary will pay the holders of its debt and its trade creditors before it will be able to distribute any of its assets to the Company or its intermediate holding company. See "Risk Factors — Risks Relating to the Notes — We are a holding company and the payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries."

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;
- ranks at least *pari passu* with all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to priority rights of such unsubordinated Indebtedness pursuant to applicable law); and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

The Company will cause each of its future Subsidiaries (other than Subsidiaries organized under the laws of the PRC), promptly upon becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes. Each Subsidiary of the Company that guarantees the Notes after the Original Issue Date is referred to as a "Future Subsidiary Guarantor" and, upon execution of the applicable supplemental indenture to the Indenture, will be a "Subsidiary Guarantor."

In addition, subject to the limitations described in "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral," the Subsidiary Guarantee of each Subsidiary Guarantor Pledgor:

- will be entitled to a first ranking security interest in the Collateral (subject to any Permitted Liens) pledged by such Subsidiary Guarantor Pledgor, as described below under the caption "— Security"; and
- will rank effectively senior in right of payment to the unsecured obligations of such Subsidiary Guarantor Pledgor with respect to the value of the Collateral securing such Subsidiary Guarantee (subject to any priority rights of such unsecured obligations pursuant to applicable law).

Under the Indenture and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees will be made in U.S. dollars.

Under the Indenture and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee and the enforceability of the Collateral granted in respect of the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon a defeasance as described under "— Defeasance";
- upon the designation by the Company of a Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture;
- upon the sale of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants described under the captions "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" and "— Certain Covenants — Limitation on Asset Sales") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture; or
- upon the sale of all or substantially all of the assets of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenant described under the caption "— Certain Covenants — Limitation on Asset Sales") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the Indenture.

On the Original Issue Date, all of the Company's Subsidiaries will be Restricted Subsidiaries and each of the Restricted Subsidiaries, other than Restricted Subsidiaries that are organized under the laws of the PRC, will be a Subsidiary Guarantor. However, under the circumstances described below under the caption "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries". The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture and will not guarantee the Notes.

Security

The Company has agreed, for the benefit of the holders of the Notes, to pledge, or cause each initial Subsidiary Guarantor Pledgor to pledge, as the case may be, the Capital Stock of all Restricted Subsidiaries (other than the Restricted Subsidiaries that are organized under the laws of the PRC) held by it on a first priority basis (subject to Permitted Liens) on the Original Issue Date in order to secure the obligations of the Company under the Notes and the Indenture and of such initial Subsidiary Guarantor Pledgor under its Subsidiary Guarantee (the "Collateral"). Such Restricted Subsidiaries that will have their Capital Stock so pledged as security are Rich Fame International Limited, Fine Fit Limited, Sky Famous Limited, China Zhaoneng Group Limited, Profit Wise International Limited and Ultra Big Investments Limited. The initial Subsidiary Guarantor Pledgors are Rich Fame International Limited, Sky Famous Limited and Profit Wise International Limited. The Company and each Subsidiary Guarantor Pledgor has agreed to:

(1) execute one or more Security Documents granting to the Trustee, for the benefit of the holders of the Notes, first priority Liens (subject to any Permitted Liens) (collectively, the "First Priority Lien") on relevant Collateral (subject to any Permitted Liens);

(2) take all requisite steps under applicable laws and undertake other customary procedures in connection with the granting and perfection (if relevant) of the First Priority Lien on relevant Collateral (subject to any Permitted Liens); and

(3) deliver to the Trustee an Opinion of Counsel and Officers' Certificates (accompanied by resolutions and constituent documents) with respect to corporate and collateral matters in connection with the Security Documents relating to each such pledge, in form and substance as set forth in the Indenture.

None of the Capital Stock of the Non-Guarantor Subsidiaries will be pledged on the Original Issue Date or at any time in the future. In addition, none of the Capital Stock of any future Restricted Subsidiary that may be organized under the laws of the PRC will be pledged at any time in the future.

The Company has also agreed, for the benefit of the holders of the Notes, to pledge, or cause each Subsidiary Guarantor to pledge, the Capital Stock owned by the Company or such Subsidiary Guarantor of any Person that becomes a Restricted Subsidiary (other than Persons organized under the laws of the PRC) after the Original Issue Date, promptly upon such Person becoming a Restricted Subsidiary, to secure the obligations of the Company under the Notes and the Indenture, and of such Subsidiary Guarantor under its Subsidiary Guarantee, in the manner described above.

The value of the Collateral securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors is unlikely to be sufficient to satisfy the Company's and each of the Subsidiary Guarantor Pledgors' obligations under the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors, and the Collateral securing the Notes and such Subsidiary Guarantees may be reduced or diluted under certain circumstances, including the issuance of Additional Notes and other Permitted Pari Passu Secured Indebtedness and the disposition of assets comprising the Collateral, subject to the terms of the Indenture. See "— Release of Security" and "Risk Factors — Risks Relating to the Subsidiary Guarantees and the Collateral — The value of the Collateral is unlikely to be sufficient to satisfy our obligations under the Notes."

Citicorp International Limited will initially act as Trustee under the Indenture and Security Documents in respect of the security over the Collateral. The Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee may have obligations under the Security Documents or the Intercreditor Agreement that are in conflict with the interests of the holders of the Notes and the beneficiaries of the Secured Obligations. The Trustee may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification or security to its satisfaction.

No appraisals of the Collateral have been prepared in connection with this offering of the Notes. There can be no assurance that the proceeds of any sale of the Collateral, in whole or in part, pursuant to the Indenture and the Security Documents following an Event of Default, would be sufficient to satisfy amounts due on the Notes or the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors. By its nature, some or all of the Collateral will be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral would be sold in a timely manner or at all.

So long as no Payment Default has occurred and is continuing, and subject to the terms of the Security Documents and the Indenture, the Company and the Subsidiary Guarantor Pledgors, as the case may be, will be entitled to exercise any and all voting rights and to receive, retain and use any and all cash dividends, stock dividends, liquidating dividends, non-cash dividends, shares or stock resulting from stock splits or reclassifications, rights issues, warrants, options and other distributions (whether similar or dissimilar to the foregoing) in respect of Capital Stock constituting Collateral.

Permitted Pari Passu Secured Indebtedness

On or after the Original Issue Date, the Company and each Subsidiary Guarantor Pledgor may create Liens on the Collateral pari passu with the Lien for the benefit of the Holders to secure Indebtedness of the Company (including Additional Notes) and any Pari Passu Subsidiary Guarantee of a Subsidiary Guarantor Pledgor with respect to such Indebtedness (such Indebtedness of the Company and any such Pari Passu Subsidiary Guarantee, "Permitted Pari Passu Secured Indebtedness"); *provided* that (i) the Company or such Subsidiary Guarantor Pledgor was permitted to Incur such Indebtedness under the covenant under the caption "Limitation on Indebtedness and Preferred Stock," (ii) the holders of such Indebtedness (or their representative) become party to the Intercreditor Agreement referred to below, (iii) the agreement in respect of such Indebtedness contains provisions with respect to releases of Collateral and such Pari Passu Subsidiary Guarantee substantially similar to and no more restrictive on the Company and such Subsidiary Guarantor Pledgor than the provisions of the Indenture and the Security Documents, and (iv) the Company and such Subsidiary Guarantor Pledgor deliver to the Trustee an Opinion of Counsel and Officers' Certificate with respect to corporate and collateral matters in connection with the Security Documents, in form and substance as set forth in the Security Documents or otherwise satisfactory to the Trustee. The Trustee will be permitted and authorized, without the consent of any Holder, to enter into any amendments to the Security Documents or the Indenture and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph (including, without limitation, the appointment of any collateral agent under the Intercreditor Agreement referred to below to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness). The Trustee, will be permitted and authorized, without the consent of any holder of Notes, to enter into any amendments to the Security Documents or the Indenture or the Intercreditor Agreement and take any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with this paragraph.

Except for certain Permitted Liens and the Permitted Pari Passu Secured Indebtedness, the Company and its Restricted Subsidiaries will not be permitted to issue or Incur any other Indebtedness secured by all or any portion of the Collateral without the consent of each Holder of the Notes then outstanding.

Intercreditor Agreement

Prior to the first Incurrence of any Permitted Pari Passu Secured Indebtedness, the Trustee will enter into an intercreditor agreement (the "Intercreditor Agreement"), without requiring any consent or instruction from the holders of the Notes, with the Company, the Subsidiary Guarantor Pledgors and the holders of such Permitted Pari Passu Secured Indebtedness (or their representative), the terms of which shall be satisfactory to the Trustee. The Intercreditor Agreement will provide, among other things, that (i) the parties thereto shall share equal priority and pro rata entitlement in and to the Collateral, (ii) the conditions under which the parties thereto will consent to the release of or granting of any Lien on the Collateral and (iii) the conditions under which the parties thereto will enforce their rights with respect to the Collateral and the Indebtedness secured thereby.

Holders of the Notes shall be deemed to have consented to the execution and delivery of any Intercreditor Agreement and any amendment or modification thereto.

Enforcement of Security

The First Priority Lien securing the Notes and the Subsidiary Guarantees of the Subsidiary Guarantor Pledgors will be granted to the Trustee. The Trustee will hold such Liens and security interests in the Collateral granted pursuant to the Security Documents with sole authority to exercise remedies under the Security Documents as directed by the written instruction of the Holders pursuant to the terms of the Indenture. The Trustee has agreed to act as secured party on behalf of the Holders under the applicable Security Documents, to follow the instructions provided to it under the Indenture, the Security Documents and the Intercreditor Agreement and to carry out certain other duties.

The Indenture and/or the Security Documents will principally provide that, at any time while the Notes are outstanding, the Trustee has the exclusive right to manage, perform and enforce the terms of the Security Documents relating to the Collateral and to exercise and enforce all privileges, rights and remedies thereunder according to its direction, including to take or retake control or possession of such Collateral and to hold, prepare for sale, process, lease, dispose of or liquidate such Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture.

All payments received and all amounts held by the Trustee in respect of the Collateral under the Security Documents and any Intercreditor Agreement will be applied as follows:

first, to the Trustee, the Paying Agent, the Transfer Agent and the Registrar and any receiver, attorney or agent appointed by it to the extent necessary to reimburse the Trustee, the Paying Agent, the Transfer Agent and the Registrar for any fees, costs and expenses incurred in connection with the collection or distribution of such amounts held or realized or in connection with expenses incurred in enforcing its remedies under the Security Documents and any Intercreditor Agreement and reserving the Collateral and all amounts for which the Trustee, the Paying Agent, the Transfer Agent or the Registrar is entitled to indemnification under the Indenture, Security Documents and any Intercreditor Agreement;

second, to the Trustee for the benefit of Holders and, to the extent applicable, to holders of Permitted Pari Passu Secured Indebtedness (or their representative) under any Intercreditor Agreement; and

third, any surplus remaining after such payments will be paid to the Company (for the Subsidiary Guarantor Pledgors or to whomever may be lawfully entitled thereto).

The Trustee may decline to foreclose on the Collateral or exercise remedies available if it does not receive indemnification or security to its satisfaction. In addition, the Trustee's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Trustee's Liens on the Collateral. The Trustee nor any of its officers, directors, employees, attorneys or agents will be responsible or liable for the existence, genuineness, value or protection of any Collateral securing the Secured Obligations, for the legality, enforceability, effectiveness or sufficiency of the Indenture, the Security Documents or the Intercreditor Agreement, for the creation, perfection, priority, sufficiency or protection of any of the Liens, or for any defect or deficiency as to any such matters, or for any failure to demand, collect, foreclose or realize upon or otherwise enforce any of the Liens or Security Documents or any delay in doing so. Nor will the Trustee be responsible for (i) the right or title of any person in or to, or the value of, or sufficiency of any part of the Collateral created by the Security Documents; (ii) the priority of any Lien on the Collateral created by the Security Documents; or (iii) the existence of any other Lien affecting any asset secured under a Security Document.

The Indenture, the Intercreditor Agreement and the Security Documents will provide that the Company and the Subsidiary Guarantor Pledgors will indemnify, on a joint and several basis, on demand the Trustee for all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind imposed against the Trustee arising out of or relating to it acting as Trustee except to the extent that any of the foregoing are finally judicially determined to have resulted from the gross negligence or willful misconduct of the Trustee.

This section, "— Enforcement of Security," shall be subject to any amendments to the Security Documents or the Indenture to permit the creation of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness in accordance with "— Permitted Pari Passu Secured Indebtedness" above.

Release of Security

The security created in respect of the Collateral granted under the Security Documents may be released in certain circumstances, including:

- upon repayment in full of the Notes;
- upon defeasance and discharge of the Notes as provided below under the caption "— Defeasance";
- upon certain dispositions of the Collateral in compliance with the covenants under the captions "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries" or "— Certain Covenants — Limitation on Asset Sales" or in accordance with the provision under the caption "— Consolidation, Merger and Sale of Assets";

- with respect to security granted by a Subsidiary Guarantor Pledgor, upon the release of the Subsidiary Guarantee of such Subsidiary Guarantor Pledgor in accordance with the terms of the Indenture; or

- in whole or in part, with the requisite consent of the Holders in accordance with the provisions described under "— Amendments and Waivers."

The Trustee may refrain from acting in accordance with the instructions of the holders of the Notes until it has received security satisfactory to it against any liability or loss which it may incur in complying with the instructions. In addition, the Trustee's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior Liens and practical problems associated with the realization of the Trustee's Liens on the Collateral.

Further Issues

Subject to the covenants described below, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the first paragraph of the "— Certain Covenants — Limitation on Indebtedness and Preferred Stock" covenant described below. For U.S. federal income tax purposes, Additional Notes must be issued in a "qualified reopening".

Optional Redemption

At any time on or after November 17, 2013, the Company may redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below, plus accrued and unpaid interest, if any, to the redemption date, if redeemed during the 12-month period commencing on November 17 of any year set forth below:

Period	Redemption Price
2013	103.8750%
2014	101.9375%

At any time prior to November 17, 2013, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to, the redemption date.

In addition, at any time prior to November 17, 2013, the Company may redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 107.75% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption. If less than all of the Notes are to be redeemed, the Trustee will select Notes for redemption as follows:

- if the Notes are listed on any securities exchange, in compliance with the requirements of the principal securities exchange on which the Notes are then traded; or
- if the Notes are not listed on any securities exchange, on a pro rata basis, by lot or by such other method as the Trustee deems fair and appropriate, unless otherwise required by law or depositary requirements.

However, no Note of US$100,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Repurchase of Notes Upon the Occurrence of a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

The Company has agreed in the Indenture that it will timely repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of the Company, it is important to note that if the Company is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, the failure by the Company to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control under the Notes may also constitute an event of default under certain other debt instruments. Future debt of the Company may also (i) prohibit the Company from purchasing the Notes in the event of a Change of Control Triggering Event, (ii) provide that a Change of Control Triggering Event is a default or (iii) require repurchase of such debt upon the occurrence of a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The ability of the Company to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon the occurrence of a Change of Control Triggering Event."

The definition of Change of Control includes a phrase "all or substantially all" as used with respect to the assets of the Company. No precise definition of the phrase has been established under applicable law, and the phrase will likely be interpreted under applicable law of the relevant jurisdictions based on particular facts and circumstances. Accordingly, there may be a degree of uncertainty as to the ability of a Holder of Notes to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group.

Notwithstanding the above, the Company will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees or Security Documents will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under the caption "— Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor is organized or resident for tax purposes or any jurisdiction from or through which payment is made (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note or the Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder or beneficial owner of such Note or Subsidiary Guarantee and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee including without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30 day period;

(C) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder or beneficial owner; or

(D) the presentation of such Note (in cases in which presentation is required) for payment in the Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(iii) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii) and (iii); or

(b) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment, to the extent that such payment would be required to be included for tax purposes in the income under the laws of a Relevant Jurisdiction of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

As a result of these provisions, there are circumstances in which taxes could be withheld or deducted but Additional Amounts would not be payable to some or all beneficial owners of Notes.

Whenever there is mentioned in any context the payment of principal, premium or interest in respect of any Note or any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Tax Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person (as defined under the caption "— Consolidation, Merger and Sale of Assets"), as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Jurisdiction affecting taxation; or

(2) any change in the existing official position, or the stating of an official position, regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective on or after (i) with respect to the Company or any initial Subsidiary Guarantor, the Original Issue Date or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, the date such Future Subsidiary Guarantor or Surviving Person becomes a Future Subsidiary Guarantor or Surviving Person, as the case may be, with respect to any payment due or to become due under the Notes or the Indenture, the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, such Subsidiary Guarantor or such Surviving Person, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Subsidiary Guarantor or a Surviving Person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before the Tax Redemption Date:

(1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, such Surviving Person or such Subsidiary Guarantor, as the case may be, by taking reasonable measures available to it; and

(2) an Opinion of Counsel or an opinion of a tax consultant, in either case, of recognized standing with respect to tax matters of the Relevant Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

The Trustee shall accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Preferred Stock

(a) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness) and the Company will not permit any Restricted Subsidiary to issue any Preferred Stock; *provided* that the Company may Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would be not less than 3.0 to 1.0 with respect to any Incurrence of Indebtedness on or prior to November 17, 2012 and 3.25 to 1.0 with respect to any Incurrence of Indebtedness thereafter. Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

(b) Notwithstanding the foregoing, the Company and, to the extent provided below, any Restricted Subsidiary, may Incur each and all of the following ("Permitted Indebtedness"):

(1) Indebtedness under the Notes (excluding any Additional Notes and any Permitted Pari Passu Secured Indebtedness of the Company) and each Subsidiary Guarantee;

(2) any Pari Passu Subsidiary Guarantees by any Subsidiary Guarantor;

(3) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date or that is Incurred under a Staged Acquisition Agreement with respect to an existing capital commitment under an Existing Forest Acquisition Framework Agreement, excluding Indebtedness permitted under clause (b)(4) of this covenant; *provided* that such Indebtedness of Restricted Subsidiaries other than that incurred under a Staged Acquisition Agreement shall be included in the calculation of Permitted Subsidiary Indebtedness;

(4) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (x) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (b)(4), (y) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness, such Indebtedness must be unsecured and expressly be subordinated in right of payment to the Notes, in the case of the Company, or the Subsidiary Guarantee of such Subsidiary Guarantor, in the case of a Subsidiary Guarantor and (z) if the Indebtedness is owed to the Company or any Subsidiary Guarantor, such Indebtedness must be evidenced by an unsubordinated promissory note or a similar instrument under applicable law, except to the extent that such Indebtedness is required to be subordinated to any Indebtedness owing by the obligor on such Indebtedness to any bank or similar financial institution, which is permitted under this "Limitation on Indebtedness and Preferred Stock" covenant;

(5) Indebtedness ("Permitted Refinancing Indebtedness") issued in exchange for, or the net proceeds of which are used, substantially concurrently with the Incurrence thereof, to refinance or refund, then outstanding Indebtedness Incurred under clause (a) or clause (b)(1), (b)(2), (b)(3), (b)(7) or (b)(14) of this covenant and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (A) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is pari passu with, or subordinated in right of payment to, the Notes or a Subsidiary Guarantee shall only be permitted under this clause (b)(5) if (x) in case the Notes are refinanced in part or the Indebtedness to be refinanced is pari passu with the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made pari passu with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such

Subsidiary Guarantee, (B) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (C) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause (b)(5) by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor; *provided further* that any Indebtedness constituting an obligation to pay the deferred purchase price under a Staged Acquisition Agreement Incurred under clause (b)(3) or (b)(7) of this covenant may only be refinanced pursuant to another Staged Acquisition Agreement;

(6) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect the Company or any Restricted Subsidiary from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(7) Indebtedness Incurred by the Company or any Restricted Subsidiary for the purpose of financing (i) all or any part of the purchase price of any forest asset, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, including any such purchase through the acquisition of Capital Stock of any Person that owns such real or personal property or equipment which will, upon such acquisition, become a Restricted Subsidiary or (ii) all or any part of the purchase price or the cost of development, construction or improvement of any forest asset, real or personal property (including the lease purchase price of land use rights) or equipment to be used in the ordinary course of business by the Company or such Restricted Subsidiary in the Permitted Business, including in either case of (i) or (ii) above, Indebtedness Incurred constituting an obligation to pay the deferred purchase price in staged or instalment payments pursuant to a Staged Acquisition Agreement; *provided* that, in each case (A) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost, (B) such Indebtedness shall be Incurred no later than 180 days after the acquisition of such property or completion of such development, construction or improvement, and (C) on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (b)(7) (together with refinancings thereof) does not exceed an amount equal to 15% of Total Assets;

(8) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

(9) Indebtedness Incurred by the Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than the 30 days following receipt by the Company or such Restricted Subsidiary, as applicable, of a demand for reimbursement;

(10) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guarantees or letters of credit, surety

bonds or performance bonds securing any obligation of the Company or any Restricted Subsidiary pursuant to such agreements, in any case, Incurred in connection with the disposition of any business, assets or Restricted Subsidiary (other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition); *provided* that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds actually received by the Company or any Restricted Subsidiary from the disposition of such business, assets or Restricted Subsidiary;

(11) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided* that such Indebtedness is extinguished within five Business Days of Incurrence;

(12) (i) guarantees by the Company or any Subsidiary Guarantor of Indebtedness of the Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (ii) guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clauses (b)(6) or (b)(7) above or clause (b)(13) below;

(13) Indebtedness of the Company or any Restricted Subsidiary with a maturity of one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (b)(13) at any time outstanding does not exceed US$30.0 million (or the Dollar Equivalent thereof); and

(14) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US$10.0 million (or the Dollar Equivalent thereof).

(c) For purposes of determining compliance with this "Limitation on Indebtedness and Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first sentence of clause (a) of this covenant, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness.

(d) Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant will not be deemed to be exceeded with respect to any outstanding Indebtedness due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (a) through (d) below being collectively referred to as "Restricted Payments"):

(a) declare or pay any dividend or make any distribution on or with respect to the Company's or any Restricted Subsidiary's Capital Stock (other than dividends or distributions payable or paid in shares of the Company's, or payable or paid solely in shares of any Restricted Subsidiary's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(b) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock (including options, warrants or other rights to acquire such shares of Capital Stock) of the Company, any Restricted Subsidiary or any direct or indirect parent of the Company held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(c) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is subordinated in right of payment to the Notes or any Subsidiary Guarantee (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or

(d) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

(A) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(B) the Company could not Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock"; or

(C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum (without duplication) of:

(i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on the first day of the semi-annual fiscal period during which the Notes are issued and ending on the last day of the Company's most recently ended semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available and have been provided to the Trustee at the time of such Restricted Payment; *provided* that any deemed or imputed interest with respect to any deferred payment obligation as referenced in clause (iii) of the definition of Consolidated Interest Expense shall not be included in the calculation of Consolidated Net Income for purposes of this clause (i); plus

(ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (x) the conversion of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (y) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company; plus

(iii) the amount by which Indebtedness of the Company or any Restricted Subsidiary is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any Restricted Subsidiary convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); *provided*, *however*, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any Restricted Subsidiary from the sale of such Indebtedness; plus

(iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (w) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case, to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (x) the unconditional release of a guarantee provided by the Company or any Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (y) the net cash proceeds from the sale of any such Investment (except to the extent such proceeds are included in the calculation of Consolidated Net Income) or (z) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person.

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(ii) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other

than Disqualified Stock) of the Company (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(ii) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, or the purchase, call for redemption, retirement or other acquisition by a Restricted Subsidiary of any shares of Capital Stock made, on a pro rata basis or on a basis more favorable to the Company to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held by the Company, directly or indirectly through Restricted Subsidiaries;

(6) the payment of any dividends or distributions declared, paid or made on the Company's Capital Stock consistent with the Company's dividend policy with respect to the year ended December 31, 2010; *provided* that such payments are made on or prior to June 30, 2011; or

(7) other Restricted Payments in an aggregate amount not to exceed US$10.0 million made since the date of the Original Issue Date.

provided that, in the case of clause (2), (3) or (4) above, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clauses (1), (5) and (6) (but only to the extent that dividends are paid to Persons other than the Company or a Wholly Owned Restricted Subsidiary) of the preceding paragraph shall be included in calculating whether the conditions of clause (C) of the first paragraph of this "— Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$5.0 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in excess of US$5.0 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(a) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

  (1) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

  (2) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

(3) make loans or advances to the Company or any other Restricted Subsidiary; or

(4) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(b) The provisions of paragraph (a) do not apply to any encumbrances or restrictions:

(1) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the Indenture, the Security Documents, or under any Permitted Pari Passu Secured Indebtedness of the Company or any Subsidiary Guarantor Pledgor or Pari Passu Subsidiary Guarantee of any Subsidiary Guarantor, and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(2) existing under or by reason of applicable law, rule, regulation or government order;

(3) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(4) that otherwise would be prohibited by the provision described in clause (a)(4) of this covenant if they arise, or are agreed to in the ordinary course of business, and that (x) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (y) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (z) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(5) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Limitation on Indebtedness and Preferred Stock" and "— Limitation on Asset Sales" covenants; or

(6) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clause (b)(7) or (b)(13) of the "— Limitation on Indebtedness and Preferred Stock" covenant.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

(3) the sale of all of the shares of Capital Stock of a Restricted Subsidiary if permitted under, and made in accordance with, the "— Limitation on Asset Sales" covenant; or

(4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant.

Notwithstanding the foregoing, a Restricted Subsidiary may issue Common Stock to its shareholders on a pro rata basis or on a basis more favorable to the Company and its Restricted Subsidiaries.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any other Restricted Subsidiary, unless (a) (1) such Restricted Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (2) such Restricted Subsidiary waives and will not in any manner whatsoever claim, or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full, or (b) such guarantee is permitted by clause (b)(3) or (b)(12)(ii) (other than a guarantee by a PRC Restricted Subsidiary of the Indebtedness of a non-PRC Restricted Subsidiary), under the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock."

If the Guaranteed Indebtedness (A) ranks pari passu in right of payment with the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall rank pari passu in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction, series of related transactions or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (a) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of the Company or (b) with any Affiliate of the Company or any Restricted Subsidiary (each an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable arm's-length transaction by the Company or the relevant Restricted Subsidiary with a Person that is not such a holder or an Affiliate of the Company or such Restricted Subsidiary; and

(2) the Company delivers to the Trustee:

(A) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$3.0 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(B) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$7.5 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause (2)(A) above, an opinion issued by an accounting, appraisal or investment banking firm of recognized international standing as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clause (a) or (b) of the first paragraph of the covenant described under the caption "— Limitation on Restricted Payments" if permitted by that covenant;

(4) any sale of Capital Stock (other than Disqualified Stock) of the Company;

(5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme; and

(6) any reasonable and customary employment agreement, employee benefit plan, officer or director indemnification agreement or any similar arrangement entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and payments pursuant thereto, so long as any such agreement or plan is in compliance with any applicable rules of The Stock Exchange of Hong Kong Limited.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "— Limitation on Restricted Payments" covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this offering circular, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, and (iii) any transaction between or among any of the Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (a) or (b) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien on the Collateral (other than Permitted Liens).

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company may enter into a Sale and Leaseback Transaction if:

(a) the Company could have (1) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under clause (a) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock" and (2) incurred a Lien to secure such Indebtedness pursuant to the covenant described under the caption "— Limitation on Liens," in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;

(b) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(c) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company applies the proceeds of such transaction in compliance with, the covenant described under the caption "— Limitation on Asset Sales."

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(a) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(b) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of;

(c) in the case of an Asset Sale that constitutes an Asset Disposition, the Company could Incur, at the time of and after giving *pro forma* effect to such Asset Disposition, at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock";

(d) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$10.0 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

(A) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary from or indemnification against further liability; and

(B) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion.

(e) the Company delivers an Officer's Certificate to the Trustee certifying that such Asset Sale complies with the foregoing clauses (a) through (d).

Within 270 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Cash Proceeds to:

(1) permanently repay Senior Indebtedness of the Company or any Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary;

(2) acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business if, after giving effect to such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary of the Company; or

(3) acquire properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties or assets that will be used in the Permitted Business, whether pursuant to a Staged Acquisition Agreement or otherwise ("Replacement Assets").

Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clauses (1), (2) and (3) in the immediately preceding paragraph will constitute "Excess Proceeds." Excess proceeds of less than US$10.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds equals to or exceeds US$10.0 million (or the Dollar Equivalent thereof), within 10 days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

(i) accumulated Excess Proceeds, multiplied by

(ii) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all pari passu Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company may use such Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes and any other pari passu Indebtedness tendered into (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Notes and such other pari passu Indebtedness will be purchased on a pro rata basis based on the principal amount of Notes and such other pari passu Indebtedness tendered (or required to be prepaid or redeemed). Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on the Company's Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than a Permitted Business; *provided* that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than a Permitted Business as long as any Investment therein was not prohibited when made by the covenant under the caption "— Limitation on Restricted Payments."

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (a) in the approximate amounts and for the purposes specified under the caption "Use of Proceeds" in this offering circular and (b) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (a) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (b) neither the Company nor any Restricted Subsidiary guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; (c) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary; (d) such Restricted Subsidiary does not own any Disqualified Stock of the Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness, or any Lien on any property, of the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock" or such Lien would violate the covenant described under the caption "— Limitation on Liens"; (e) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated as Unrestricted Subsidiaries in accordance with this paragraph; (f) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under the caption "Limitation on Restricted Payments"; and (g) such Restricted Subsidiary does not own or operate or possess any material license, franchise or right used in connection with the ownership or operation of any part of the Company's or its Restricted Subsidiaries' business.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (a) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (b) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock"; (c) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "— Limitation on Liens"; (d) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); (e) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor; and (f) if such Restricted Subsidiary is not organized under the laws of the PRC, all Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary shall be pledged as required under "— Security."

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (a) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Business, (b) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens and (c) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (1) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (2) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not, and will not permit any Subsidiary Guarantor to, Incur any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the applicable Subsidiary Guarantee, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If, on any date following the date of the Indenture, the Notes have an Investment Grade Rating from both of the Rating Agencies and no Default or Event of Default has occurred and is continuing (a "Suspension Event"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have an Investment Grade Rating from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

(1) "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";

(2) "— Certain Covenants — Limitation on Restricted Payments";

(3) "— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries";

(4) "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries";

(5) "— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries";

(6) "— Certain Covenants — Limitation on Sale and Leaseback Transactions";

(7) "— Certain Covenants — Limitation on Asset Sales;" and

(8) clause (d) of the covenant described under the caption "— Consolidation, Merger and Sale of Assets".

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any Restricted Subsidiary as an Unrestricted Subsidiary pursuant to the covenant described under the caption "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" or the definition of "Unrestricted Subsidiary."

Such covenants will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event and, following reinstatement, the calculations under the covenant described under the caption "— Certain Covenants — Limitation on Restricted Payments" will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended. There can be no assurance that the Notes will ever achieve an Investment Grade Rating or that, if achieved, any such rating will be maintained.

Provision of Financial Statements and Reports

(a) So long as any of the Notes remain outstanding, the Company will furnish to the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other securities exchange on which the Company's common stock are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that, if at any time the common stock of the Company cease to be listed for trading on The Stock Exchange of Hong Kong Limited or another recognized securities exchange, the Company will file with the Trustee and furnish to the Holders:

(1) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of its financial statements (on a consolidated basis) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally recognized firm of independent accountants;

(2) as soon as they are available, but in any event within 45 calendar days after the end of the first semi-annual fiscal period of the Company, copies of its financial statements (on a consolidated basis) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) reviewed by a member firm of an internationally recognized firm of independent accountants; and

(3) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third fiscal quarters of the Company, copies of its unaudited financial statements (on a consolidated basis), including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

(b) In addition, so long as any of the Notes remain outstanding, the Company will provide to the Trustee (1) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent semi-annual fiscal periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, together with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; and (2) as soon as possible and in any event within 10 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default or any default in the performance of any covenants or agreements under the Security Documents, an Officers' Certificate setting forth the details of such Default or default, and the action which the Company proposes to take with respect thereto.

(c) Further, the Company has agreed that, during any period in which the Company is neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company, as the case may be, will supply to (i) any Holder or beneficial owner of a Note or (ii) a prospective purchaser of a Note or a beneficial interest therein designated by such Holder or beneficial owner, the information specified in, and meeting the requirements of Rule 144A(d)(4) under the Securities Act upon the request of any Holder or beneficial owner of a Note.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

(a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(c) default in the performance or breach of the provisions of the covenants described under the caption "— Consolidation, Merger and Sale of Assets" and "— Limitation on Liens", the failure by the Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon the occurrence of a Change of Control Triggering Event", "— Certain Covenants — Limitation on Asset Sales" or the failure by the Company to create, or cause its Restricted Subsidiaries to create, a First Priority Lien on the Collateral (subject to any Permitted Liens) in accordance with the covenant described under the caption "— Security";

(d) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(e) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$5.0 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (1) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (2) a failure to pay principal of such Indebtedness when the same becomes due;

(f) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$5.0 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(g) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary or for any substantial part of the property and assets of the Company or any Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(h) the Company or any Restricted Subsidiary (1) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (2) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any Restricted Subsidiary, or for all or substantially all of the property and assets of the Company or any Restricted Subsidiary, or (3) effects any general assignment for the benefit of creditors;

(i) any Subsidiary Guarantor denies or disaffirms in writing its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect;

(j) any default by the Company or any Subsidiary Guarantor Pledgor in the performance of any of its obligations under the Security Documents or the Indenture, which adversely affects the enforceability, validity, perfection or priority of the applicable Lien on the Collateral or which adversely affects the condition or value of the Collateral, taken as a whole, in any material respect; or

(k) the Company or any Subsidiary Guarantor Pledgor denies or disaffirms its obligations under any Security Document or, other than in accordance with the Indenture and the Security Documents, any Security Document ceases to be or is not in full force and effect or the Trustee ceases to have a first priority security interest in the Collateral (subject to any Permitted Liens).

If an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (g) or (h) above occurs with respect to the Company or any Restricted Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(x) all existing Events of Default, other than the non-payment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

(y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

If an Event of Default occurs and is continuing, the Trustee may pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, foreclose on the Collateral in accordance with the terms of the Security Documents and take such further action on behalf of the Holders of the Notes with respect to the Collateral as the Trustee deems appropriate or is directed by the Holders of at least 25% in aggregate principal amount of outstanding Notes. See "— Security."

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy proceeding, judicial or otherwise, available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law, the

Indenture or the Security Documents that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. A Holder may not pursue any remedy with respect to the Indenture or the Notes unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity or security satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such request;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Two Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of the Company and its Restricted Subsidiaries and the Company's and its Restricted Subsidiaries' performance under the Indenture and the Security Documents and that the Company and its Restricted Subsidiaries have fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture and the Security Documents. See "— Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(a) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, the British Virgin Islands, Hong Kong or the United States or any jurisdiction thereof and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture, the Notes and the Security Documents, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes, or from or through which payment is made, and the Indenture, the Notes and the Security Documents, as the case may be, shall remain in full force and effect;

(b) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(c) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(d) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";

(e) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (c) and (d)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

(f) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under this covenant, shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person in accordance with the Notes and the Indenture; and

(g) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with or merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless:

(A) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;

(B) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(C) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(D) immediately after giving effect to such transaction on a *pro forma* basis, the Company could Incur at least US$1.00 of Indebtedness under the proviso in the first sentence of clause (a) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock";

(E) the Company delivers to the Trustee (1) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (C) and (D)) and (2) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(F) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to (1) any sale or other disposition that complies with the "Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "The Subsidiary Guarantees — Release of Subsidiary Guarantees" and (2) a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger.

Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company that may adversely affect Holders.

No Payments for Consents

The Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture and the Security Documents will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(a) the Company has (1) deposited with the Trustee, in trust, money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (2) delivered to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture;

(b) the Company has delivered to the Trustee (1) either (x) an Opinion of Counsel of recognized international standing with respect to U.S. federal tax laws which is based on a change in applicable U.S. federal income tax law occurring after the Original Issue Date to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Company's exercise of its option under this "Defeasance and Discharge" provision and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred or (y) a ruling directed to the Trustee received from the U.S. Internal Revenue Service to the same effect as the aforementioned Opinion of Counsel, and (2) an Opinion of Counsel of recognized international standing to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and

(c) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of or constitute a default under, any other agreement or instrument to which the Company or any Restricted Subsidiary is a party or by which the Company or any Restricted Subsidiary is bound.

In the case of either discharge or defeasance, the Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture will no longer be in effect with respect to clauses (c), (d), (e)(1) and (g) under the first paragraph and clauses (C), (D), (E)(1) and (F) under the second paragraph under "Consolidation, Merger and Sale of Assets" and all the covenants described herein under "Certain Covenants," clause (c) under "Events of Default" with respect to such clauses (c), (d), (e)(1) and (g) under the first paragraph and clauses (C), (D), (E)(1) and (F) under the second paragraph under "Consolidation, Merger and Sale of Assets" and with respect to the other events set forth in such clause, clause (d) under "Events of Default" with respect to such other covenants and clauses (e) and (f) under "Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (b)(2) of the preceding paragraph and the delivery by the Company to the Trustee of an Opinion of Counsel of recognized international standing with respect to U.S. federal income tax matters to the effect that beneficial owners will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance of certain covenants and Events of Default and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of

Default that remains applicable, the amount of money and/or U.S. Government Obligations on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture, any Intercreditor Agreement or any Security Document may be amended, without the consent of any Holder, to:

(a) cure any ambiguity, defect, omission or inconsistency in the Indenture, the Notes, any Intercreditor Agreement or any Security Document;

(b) comply with the provisions described under "Consolidation, Merger and Sale of Assets";

(c) evidence and provide for the acceptance of appointment by a successor Trustee;

(d) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(e) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(f) add any Subsidiary Guarantor Pledgor or release any Subsidiary Guarantor Pledgor as provided or permitted by the terms of the Indenture;

(g) add additional Collateral to secure the Notes or any Subsidiary Guarantee and create or register Liens on such additional Collateral;

(h) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(i) effect any changes to the Indenture in a manner necessary to comply with the procedures of DTC;

(j) permit Permitted Pari Passu Secured Indebtedness in accordance with the terms of the Indenture (including, without limitation, permitting the Trustee to enter into any Intercreditor Agreement or any amendments to the Security Documents or the Indenture, the appointment of any collateral agent under any Intercreditor Agreement to hold the Collateral on behalf of the Holders and the holders of Permitted Pari Passu Secured Indebtedness and taking any other action necessary to permit the creation and registration of Liens on the Collateral to secure Permitted Pari Passu Secured Indebtedness, in accordance with the Indenture);

(k) to conform the text of the Indenture, the Notes, the Subsidiary Guarantees or the Security Documents to any provision of this "Description of Notes" to the extent that such provision was intended to be a verbatim recitation of a provision of the Indenture, the Notes, the Subsidiary Guarantees or the Security Documents, which intent may be evidenced by an Officer's Certificate to that effect; or

(l) make any other change that, in the good faith opinion of the Board of Directors, does not materially and adversely affect the rights of any Holder.

Amendments With Consent of Holders

Amendments of the Indenture, any Intercreditor Agreement or any Security Document may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture, the Notes, any Intercreditor Agreement or any Security Document; *provided* that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(a) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(b) reduce the principal amount of, or premium, if any, or interest on, any Note;

(c) change the currency, time or place of payment of principal of, or premium, if any, or interest on, any Note;

(d) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note or any Subsidiary Guarantee;

(e) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(f) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(g) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(h) release any Collateral, except as provided in the Indenture, any Intercreditor Agreement and the Security Documents;

(i) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(j) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(k) amend, change or modify any provision of any Security Document, any Intercreditor Agreement or any provision of the Indenture relating to the Collateral, in a manner that adversely affects the Holders, except in accordance with the other provisions of the Indenture, such Security Document or such Intercreditor Agreement;

(l) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale;

(m) change the redemption date or the redemption price of the Notes from that stated under "— Optional Redemption" or "— Redemption for Tax Reasons";

(n) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(o) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Members, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, member, officer, director, employee or controlling person of the Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under any applicable law.

Concerning the Trustee, the Registrar, the Transfer Agent and the Paying Agent

Citicorp International Limited is to be appointed as Trustee under the Indenture and Citibank, N.A., London Branch is to be appointed as paying agent, transfer agent and registrar (the "Paying Agent", "Transfer Agent" and "Registrar", respectively) with regard to the Notes. Except during the continuance of a Default, the Trustee, the Registrar, the Transfer Agent and the Paying Agent will not be liable, except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of the Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with the Company and its Affiliates; *provided* that if it acquires any conflicting interest, it must eliminate such conflict or resign.

If the Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

Citicorp International Limited will initially act as Trustee under the Security Documents in respect of the Security over the Collateral. The Trustee, acting in its capacity as such, shall have such duties with respect to the Collateral pledged, assigned or granted pursuant to the Security

Documents as are set forth in the Indenture and the Security Documents. Under certain circumstances, the Trustee may have obligations under the Security Documents or any Intercreditor Agreement that are in conflict with the interests of the Holders. The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture or any of the Security Documents for the benefit of the Holders, unless such Holders have offered to the Trustee indemnity and/or security satisfactory to the Trustee against any loss, liability or expense. Furthermore, each Holder, by accepting the Notes will agree, for the benefit of the Trustee that it is solely responsible for its own independent appraisal of and investigation into all risks arising under or in connection with the Security Documents and has not relied on and will not at any time rely on the Trustee in respect of such risks.

Book-Entry; Delivery and Form

The certificates representing the Notes will be issued in fully registered form without interest coupons, Notes sold in offshore transactions in reliance on Regulation S under the Securities Act will initially be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Regulation S Global Note") and will be deposited with Citibank, N.A., London Branch, as custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream.

Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in definitive, fully registered form without interest coupons (each a "Restricted Global Note"; and together with the Regulation S Global Notes, the "Global Notes") and will be deposited with Citibank, N.A., London Branch, as custodian for, and registered in the name of a nominee of, DTC.

Each Global Note (and any Notes issued for exchange therefor) will be subject to certain restrictions on transfer set forth therein as described under "Transfer Restrictions."

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Note will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Beneficial owners may hold their interests in a Global Note directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system.

Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through DTC. So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture and the Notes. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture and, if applicable, those of Euroclear and Clearstream.

Payments of the principal of, and interest on, a Global Note will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither the Company nor any of the Subsidiary Guarantors, the Trustee nor the Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a Global Note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee.

The Company also expects that payments by participants to owners of beneficial interests in such Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

The Company expects that DTC will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a Global Note is credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC will exchange the applicable Global Note for Certificated Notes, which it will distribute to its participants and which may be legended as set forth under the heading "Transfer Restrictions."

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interests in a Global Note among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Company, any of the Subsidiary Guarantors, the Trustee or any Paying Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Notes and a successor depositary is not appointed by the Company within 90 days, the Company will issue Certificated Notes in registered form, which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Notes. Holders of an interest in a Global Note may receive Certificated Notes, which may bear the legend referred to under "Transfer Restrictions," in accordance with the DTC's rules and procedures in addition to those provided for under the Indenture.

The Clearing Systems

General

DTC, Euroclear and Clearstream have advised the Company as follows:

DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the initial purchaser. Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly ("indirect participants"). Transfers of ownership or other interests in Notes in DTC may be made only through DTC participants. In addition, beneficial owners of Notes in DTC will receive all distributions of principal of and interest on the Notes from the Trustee through such DTC participant.

Euroclear and Clearstream. Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Initial Settlement

Investors' interests in Notes held in book-entry form by DTC will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Euroclear and Clearstream will hold positions on behalf of their participants through DTC.

Investors electing to hold their Notes through DTC (other than through accounts at Euroclear or Clearstream) must follow the settlement practices applicable to United States corporate debt obligations. The securities custody accounts of investors will be credited with their holdings against payment in same day funds on the settlement date.

Investors electing to hold their Notes through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional Eurobonds in registered form. Notes will be credited to the securities custody accounts of Euroclear Holders and of Clearstream Holders on the Business Day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules. Secondary market trading between Clearstream participants and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream participants or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if a transaction meets its settlement requirements, deliver instructions to its U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream participants and Euroclear participants may not deliver instructions directly to the U.S. depositaries.

Because of time zone differences, credits of Notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the Business Day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Clearstream participants or Euroclear participants on such Business Day. Cash received in Clearstream or Euroclear as a result of sales of Notes by or through a Clearstream participant or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the Business Day following settlement in DTC.

Neither the Company, the Trustee, any Paying Agent, the Transfer Agent nor the Registrar will have any responsibility for the performance of DTC, Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor or the Trustee) addressed to the Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of DTC. Any such notice shall be deemed to have been delivered on the day such notice is delivered to DTC or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each of the Subsidiary Guarantors will irrevocably (i) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, The City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint Law Debenture Corporate Services Inc., currently with its address as 400 Madison Avenue, 4th Floor, New York, New York 10017, for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby. The Security Documents may be governed by laws of other jurisdictions.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"*Acquired Indebtedness*" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary, whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"*Adjusted Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"*Affiliate*" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person, (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition or (iii) who is a spouse or any person cohabiting as a spouse, child or step-child, parent or step-parent, brother, sister, step-brother or step-sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew and niece of a Person described in clause (i) or (ii). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"*Applicable Premium*" means with respect to a Note at any redemption date, the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of the redemption price of such Note on November 17, 2013 (such redemption price being described in the first paragraph in the "— Optional Redemption" section exclusive of any accrued interest), plus all required remaining scheduled interest payments due on such Note through November 17, 2013 (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 75 basis points, over (B) the principal amount of such Note.

"*Asset Acquisition*" means (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"*Asset Disposition*" means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary.

"*Asset Sale*" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction and including any sale or issuance of the Capital Stock of any Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person of any of its property or assets (including Capital Stock); *provided* that "Asset Sale" shall not include:

(a) sales, transfers or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(b) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made under the covenant described under the caption "— Certain Covenants — Limitation on Restricted Payments";

(c) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(d) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or its Restricted Subsidiaries;

(e) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;

(f) a transaction covered by the covenant under the caption "— Consolidation, Merger and Sale of Assets"; and

(g) any sale, transfer or other disposition by the Company or any Restricted Subsidiary, including the sale or issuance by the Company or any Restricted Subsidiary of any Capital Stock of any Restricted Subsidiary to the Company or any Restricted Subsidiary.

"*Attributable Indebtedness*" means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in such Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in such Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended.

"*Average Life*" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"*Board of Directors*" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"*Board Resolution*" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"*Business Day*" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York or in London, Singapore or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

"*Capital Stock*" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

"*Capitalized Lease*" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"*Capitalized Lease Obligations*" means the discounted present value of the rental obligations under a Capitalized Lease.

"*Change of Control*" means the occurrence of one or more of the following events:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries, taken as a whole, to any "person" (within the meaning of Section 13(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than one or more Permitted Holders;

(2) the Company consolidates with, or merges with or into, any Person (other than one or more Permitted Holders), or any Person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Company or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the Voting Stock of the Company outstanding immediately prior to such transaction is converted into or exchanged for (or continues as) Voting Stock (other than Disqualified Stock) of the surviving or transferee Person constituting a majority of the outstanding shares of Voting Stock of such surviving or transferee Person (immediately after giving effect to such issuance) and in substantially the same proportion as before the transaction;

(3) the Permitted Holders are the beneficial owners of less than 40.0% of the total voting power of the Voting Stock of the Company;

(4) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of the total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders;

(5) individuals who on the Original Issue Date constituted the Board of Directors (together with any new directors whose election was approved by a vote of at least two-thirds of the members of the Board of Directors then in office who were members of the Board of Directors on the Original Issue Date or whose election was previously so approved) cease for any reason to constitute a majority of the members of the Board of Directors then in office; or

(6) the adoption of a plan relating to the liquidation or dissolution of the Company.

"*Change of Control Triggering Event*" means the occurrence of both a Change of Control and a Rating Decline.

"*Clearstream*" means Clearstream Banking, société anonyme, Luxembourg.

"*Collateral*" means all collateral securing, or purported to be securing, directly or indirectly, the Notes or any Subsidiary Guarantee pursuant to the Security Documents, and shall initially consist of all of the Capital Stock of the initial Subsidiary Guarantors.

"*Commodity Agreement*" means any spot, forward, swap or option commodity price protection agreements or other similar agreement or arrangement designed to protect against fluctuations in commodity prices and not for speculative purposes.

"*Common Stock*" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding on the Original Issue Date, and include, without limitation, all series and classes of such common stock or ordinary shares.

"*Comparable Treasury Issue*" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"*Comparable Treasury Price*" means, with respect to any redemption date:

(1) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the fifth Business Day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(2) if such release (or any successor release) is not published or does not contain such prices on such Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations or (b) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations.

"*Consolidated EBITDA*" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense;

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains or losses or sales of assets); and

(3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than (A) any Fair Value Adjustment of Plantation Assets and (B) non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income (other than any Fair Value Adjustment of Plantation Assets),

all as determined on a consolidated basis for the Company and its Restricted Subsidiaries in conformity with GAAP; *provided* that (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any Restricted Subsidiary and (ii) in the case of any PRC CJV consolidated in accordance with GAAP, Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

"*Consolidated Fixed Charges*" means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of the Company or any Restricted Subsidiary held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company's Capital Stock (other than Disqualified Stock) or dividends paid to the Company or to a Wholly Owned Restricted Subsidiary.

"*Consolidated Interest Expense*" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of the Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by the Company and its Restricted Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations and imputed interest with respect to Attributable Indebtedness, (ii) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (iii) the deemed or imputed interest portion of any deferred payment obligation, whether Incurred pursuant to a Staged Acquisition Agreement or otherwise, (iv) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (v) the net costs associated with Hedging Obligations (including the amortization of fees), (vi) interest accruing on Indebtedness of any other Person that is guaranteed by the Company or any Restricted Subsidiary, proportionate to the extent that such Indebtedness is guaranteed and (vii) any capitalized interest; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting, except to the extent of the amount of net income actually paid in cash to, or the amount of loss actually funded in cash by, the specified Person or a Restricted Subsidiary of the Person during such period;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any Restricted Subsidiary or all or substantially all of the property and assets of such Person are acquired by the Company or any Restricted Subsidiary;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other similar constitutive documents, or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after-tax gains realized on the sale or other disposition of (A) any property or assets of the Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (B) any Capital Stock of any Person (including any gains by the Company realized on sales of Capital Stock of the Company or any Restricted Subsidiary);

(6) any translation gains or losses due solely to fluctuations in currency values and related tax effects;

(7) any net after-tax extraordinary or non-recurring gains; and

(8) any Fair Value Adjustment of Plantation Assets.

"*Consolidated Net Worth*" means, at any date of determination, stockholders' equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any Restricted Subsidiary, each item to be determined in conformity with GAAP, in each case determined without giving effect to any Fair Value Adjustment of Plantation Assets.

"*Currency Agreement*" means any foreign exchange forward contract, currency swap agreement, currency hedge agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates and not for speculation.

"*Dali County New Forest Land*" means up to 66,667 hectares of additional forest land located in Dali County, Yunnan Province with respect to which the Company has announced its intention to acquire under Staged Acquisition Agreements.

"*Default*" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"*Disqualified Stock*" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "— Certain Covenants — Limitation on Asset Sales" and "Repurchase of Notes upon the occurrence of a Change of Control Triggering Event" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of the Notes as are required to be repurchased pursuant to the "— Certain Covenants — Limitation on Asset Sales" and "Repurchase of Notes upon the occurrence of a Change of Control Triggering Event" covenants.

"*Dollar Equivalent*" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the base rate for the purchase of U.S. dollars with the applicable foreign currency as quoted by the Federal Reserve Bank of New York on the date of determination.

"*DTC*" means The Depository Trust Company and its successors.

"*Equity Offering*" means any bona fide primary public offering or private placement of Common Stock of the Company after the Original Issue Date to any Person other than a Wholly Owned Restricted Subsidiary or any Permitted Holder; *provided* that the aggregate gross cash proceeds received by the Company from such transaction shall be no less than US$20.0 million (or the Dollar Equivalent thereof).

"*Euroclear*" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"*Existing Forest Acquisition Framework Agreement*" means any acquisition agreement with respect to Ninglang County New Forest Land and Dali County New Forest Land and any of the following agreements with respect the acquisition of forest assets and pursuant to which the Company or any Restricted Subsidiary will recognize a current capital commitment as of the Original Issue Date (i) that certain agreement by and between Kunming Ultra Big Forestry Resource Development Co., Ltd. and the Ninglang County Government, dated September 17, 2009, (ii) that certain agreement by and between Kunming Ultra Big Forestry Resource Development

Co., Ltd and Kunming Zijun Yuanyi Co., Ltd, dated August 8, 2010, (iii) that certain agreement by and between China Forestry Holdings Co., Ltd., Zhong County Government and China Timber Co., Ltd., dated June 8, 2010, (iv) that certain agreement by and between China Zhaoneng Group Limited, Chengdu Yishang Forestry Resource Development Co., Ltd. and the Youyang County Government, dated October 10, 2010, (v) that certain agreement by and between Chengdu Yishang Forestry Resource Development Co., Ltd. and Guizhou Jinping Changsheng Xinglv Forest Co., Ltd., dated March 16, 2010 and (vi) that certain agreement by and between China Zhaoeneng Group Limited and the Qiandongnan Economic Industrial District, dated September 8, 2010, in each case as amended, restated, modified, renewed or supplemented (whether upon termination or otherwise) in whole or in part from time to time; *provided* in each case the amount of any capital commitment at any time outstanding under any of such agreements may not be increased as a result of any such amendment, restatement, modification, renewal or supplement.

"*Fair Market Value*" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"*Fair Value Adjustment of Plantation Assets*" means any (A) adjustment or revaluation resulting in any changes in fair value of plantation assets less costs to sell and any (B) corresponding reversal of fair value of plantation assets upon logging and sales of the plantation assets required to be made on the Company's consolidated income statements by International Accounting Standards 41 or any similar adjustment or revaluation in each case determined in conformity with GAAP.

"*Fixed Charge Coverage Ratio*" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual fiscal periods prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (the "Two Semi-annual Period") to (2) the aggregate Consolidated Fixed Charges during such Two Semi-annual Period. In making the foregoing calculation:

(A) *pro forma* effect shall be given to any Indebtedness or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Two Semi-annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-annual Period), in each case as if such Indebtedness or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that in the event of any such repayment or redemption, Consolidated EBITDA for such Two Semi-annual Period shall not include any interest income actually earned by the Company or such Restricted Subsidiary during such Two Semi-annual Period in respect of the funds used to repay or redeem such Indebtedness or Preferred Stock;

(B) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(C) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period;

(D) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period; and

(E) *pro forma* effect shall be given to the creation, designation or re-designation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or re-designation had occurred on the first day of such Reference Period;

provided that to the extent that clause (C) or (D) of this paragraph requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation shall be based upon the two full semi-annual fiscal periods immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"*GAAP*" means International Financial Reporting Standards as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

"*guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term "guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "guarantee" used as a verb has a corresponding meaning.

"*Hedging Obligation*" of any Person means the obligations of such Person pursuant to any Commodity Agreement, Currency Agreement or Interest Rate Agreement.

"*Holder*" means the Person in whose name a Note is registered in the Note register.

"*Incur*" means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"*Indebtedness*" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services pursuant to a Staged Acquisition Agreement or otherwise, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;

(7) all Indebtedness of other Persons guaranteed by such Person to the extent such Indebtedness is guaranteed by such Person;

(8) to the extent not otherwise included in this definition, Hedging Obligations; and

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

The amount of Indebtedness of any Person at any time shall be the outstanding balance at such time of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; *provided* that:

(A) the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;

(B) money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(C) that the amount of or the principal amount of Indebtedness with respect to any Hedging Obligation shall be equal to the net amount payable if such Hedging Obligation terminated at or prior to that time due to a default by such Person.

"*Independent Third Party*" means any Person that is not an Affiliate of the Company.

"*Intercreditor Agreement*" has the meaning set forth under "— Intercreditor Agreement."

"*Interest Rate Agreement*" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

"*Investment*" means:

(i) any direct or indirect advance, loan or other extension of credit to another Person,

(ii) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),

(iii) any purchase or acquisition of Capital Stock, Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or

(iv) any guarantee of any obligation of another Person.

For the purposes of the provisions of the "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" and "— Certain Covenants — Limitation on Restricted Payments" covenants: (i) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the assets (net of liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation and (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"*Investment Grade*" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest Rating Categories, by S&P or any of its successors or assigns or a rating of "Aaa," or "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest Rating Categories, by Moody's or any of its successors or assigns or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for S&P or Moody's or both, as the case may be.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"*Moody's*" means Moody's Investors Service, Inc. and its affiliates.

"*Net Cash Proceeds*" means:

(a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of

(1) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;

(2) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and its Restricted Subsidiaries, taken as a whole;

(3) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

(4) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

(b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or Temporary Cash Investments, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or Temporary Cash Investments and proceeds from the conversion of other property received when converted to cash or Temporary Cash Investments, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"*Ninglang County New Forest Land*" means up to 66,667 hectares of forest land located in Ninglang County, Yunnan Province with respect to which the Company has announced its intention to acquire under Staged Acquisition Agreements.

"*Offer to Purchase*" means an offer to purchase the Notes by the Company from the Holders commenced by mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$100,000 and integral multiples of US$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company will deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$100,000 and integral multiples of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"*Officer*" means one of the executive officers of the Company or, in the case of a Subsidiary Guarantor, one of the directors or executive officers of such Subsidiary Guarantor.

"*Officers' Certificate*" means a certificate signed by two Officers.

"*Opinion of Counsel*" means a written opinion from legal counsel who is acceptable to the Trustee that meets the requirements of the Indenture.

"*Original Issue Date*" means the date on which the Notes are originally issued under the Indenture.

"*Pari Passu Subsidiary Guarantee*" means a guarantee by any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes); *provided* that (i) the Company and such Subsidiary Guarantor is permitted to Incur such Indebtedness under the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock" and (ii) such guarantee ranks pari passu with the Subsidiary Guarantee of such Subsidiary Guarantor.

"*Payment Default*" means (i) any default in the payment of interest on any Note when the same becomes due and payable, (ii) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (iii) the failure by the Company to make or consummate a Change of Control Offer in the manner described under the caption "— Repurchase of Notes upon the occurrence of a Change of Control Triggering Event," or an Offer to Purchase in the manner described under the caption "— Certain Covenants — Limitation on Asset Sales" or (iv) any Event of Default specified in clause (e) of the definition of Events of Default.

"*Permitted Business*" means (i) the management or operation of forestry plantations and related production and processing facilities, (ii) the harvesting, processing, sale, distribution, transportation, cultivation or development of forestry resources, (iii) the operation of plantation nurseries, and the sale and distribution of seeds and saplings and similar incipient, early growth or intermediate products and by-products used or produced in connection with such activities, (iv) the import and export of timber, logs and lumber and (v) other businesses and activities reasonably related, ancillary or complementary to any of the foregoing activities.

"*Permitted Holders*" means any or all of the following:

(1) Mr. Li Kwok Cheong;

(2) Mr. Li Han Chun;

(3) any Affiliate (other than an Affiliate as defined in clause (ii) or (iii) of the definition of "Affiliate") of the Persons specified in clause (1) or (2) of this definition; and

(4) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are more than 80% owned by Persons specified in clauses (1), (2) and (3) of this definition.

"*Permitted Investment*" means:

(1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) Temporary Cash Investments;

(3) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;

(7) receivables owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) any securities or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under the caption "— Certain Covenants — Limitation on Asset Sales";

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under the caption "— Certain Covenants — Limitation on Liens";

(10) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers;

(11) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of a Permitted Business that are recorded as deposits or prepaid expenses on the Company's consolidated balance sheet;

(12) deposits made in order to comply with statutory or regulatory obligations to maintain deposits for workers, compensation claims and other purposes specified by statute or regulation from time to time in the ordinary course of a Permitted Business; and

(13) (i) deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries and (ii) prepayments made in connection with the acquisition of real property or land use rights by the Company or any Restricted Subsidiary, in each case, in the ordinary course of a Permitted Business.

"*Permitted Liens*" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and its Restricted Subsidiaries, taken as a whole;

(5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of the Company or its Restricted Subsidiaries relating to such property or assets;

(6) any interest or title of a lessor in the property subject to any operating lease;

(7) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets acquired; *provided* further that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(8) Liens in favor of the Company or any Restricted Subsidiary;

(9) Liens arising from attachment or the rendering of a final judgment or order against the Company or any Restricted Subsidiary that does not give rise to an Event of Default;

(10) Liens securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(11) Liens existing on the Original Issue Date;

(12) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (b)(5) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock"; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(13) Liens (including extensions and renewals thereof) upon any forest asset, real or personal property or equipment acquired after the Original Issue Date to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business; *provided* that (a) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (b)(7) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock," (b) such Lien is created prior to, at the time of or within 180 days after the later of the acquisition of such forest asset, real or personal property or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business, (c) the principal amount of Indebtedness secured by such Lien does not exceed 100% of the cost of such forest asset, real or personal property or equipment to be used in the ordinary course of business by the Company or a Restricted Subsidiary in the Permitted Business and (d) such Lien shall not extend to or cover any property or assets other than such item of property and any improvements on such item; *provided further* that such Lien may also cover other plantation assets owned by the Company or a Restricted Subsidiary if (x) such Lien is Incurred in the ordinary course of business and (y) the aggregate book value of such other plantation assets (as of the last day of the most recent semi-annual period for which consolidated financial statements of the Company are available (which the Company shall use its best efforts to compile on a timely manner) and have been provided to the Trustee) or, if any such other plantation assets have been acquired since the date of such financial statements, the cost of such other forest assets to be subject to a Lien Incurred pursuant to this clause (13) does not exceed 130% of the aggregate principal amount of Indebtedness to be secured by such Lien;

(14) Liens securing Indebtedness of the type described under clause (b)(13) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock"; *provided* that the value of any property or assets securing such Indebtedness does not exceed 100% of the amount of Indebtedness Incurred under such clause (b)(13) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock";

(15) Liens under the Security Documents;

(16) Liens securing any Permitted Pari Passu Secured Indebtedness that complies with each of the requirements set forth under "Security — Permitted Pari Passu Secured Indebtedness";

(17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;

(18) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations permitted by clause (b)(6) of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock";

(19) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(20) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(21) Liens securing Permitted Subsidiary Indebtedness; provided that the value of any property or assets securing such Lien does not exceed 130% of the amount of Permitted Subsidiary Indebtedness to be secured; and

(22) Liens Incurred in the ordinary course of business of the Company or any Restricted Subsidiary with respect to obligations that do not exceed US$1.0 million at any one time outstanding; provided that the value of any property or assets subject to such Lien does not exceed 100% of the amount of the Indebtedness Incurred with respect thereto.

"*Permitted Pari Passu Secured Indebtedness*" has the meaning set forth under "Security — Permitted Pari Passu Secured Indebtedness."

"*Permitted Subsidiary Indebtedness*" means Indebtedness of, and all Preferred Stock issued by, the Restricted Subsidiaries, taken as a whole (but excluding the amount of any Indebtedness of any Restricted Subsidiary either (i) permitted under clauses (b)(1), (b)(2), (b)(4) and (b)(6) or (ii) incurred under a Staged Acquisition Agreement permitted under clauses (b)(3) and (b)(7) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Preferred Stock"; *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness does not exceed an amount equal to 15% of Total Assets.

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"*PRC*" means the People's Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan.

"*PRC CJV*" means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

"*PRC CJV Partner*" means with respect to a PRC CJV, the other party or parties to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

"*PRC Restricted Subsidiary*" means a Restricted Subsidiary organized under the laws of the PRC.

"*Preferred Stock*" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over any other class of Capital Stock of such Person.

"*Rating Agencies*" means (i) S&P, (ii) Moody's and (iii) if S&P or Moody's or both shall not make a rating of the Notes publicly available, one or more "nationally recognized statistical rating organizations," as the case may be, within the meaning of Rule 15c3-I(c)(2)(iv)(F) under the Exchange Act, selected by the Company, which shall be substituted for S&P or Moody's or both, as the case may be.

"*Rating Category*" means (i) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (ii) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Moody's used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "1," "2" and "3" for Moody's; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from "BB+" to "BB," as well as from "BB-'' to "B+," will constitute a decrease of one gradation).

"*Rating Date*" means, (i) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of, or the intention by the Company or any other Person or Persons to effect, a Change of Control or (ii) in connection with actions contemplated under the caption "— Consolidation, Merger and Sale of Assets," that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"*Rating Decline*" means (i) in connection with a Change of Control Triggering Event, the occurrence on or within six months after the date of public notice of the occurrence of a Change of Control (which period will be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below or (ii) in connection with the actions contemplated under the caption "— Consolidation, Merger and Sale of Assets," the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Notes are rated by both Moody's and S&P on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;

(b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"*Reference Treasury Dealer*" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by the Company in good faith.

"*Reference Treasury Dealer Quotations*" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to such Trustee by such Reference Treasury Dealer at 5:00 p.m. on the fifth Business Day preceding such redemption date.

"*Renminbi*" or "RMB" means the lawful currency of the People's Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of the Indenture.

"*Restricted Subsidiary*" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"*S&P*" means Standard & Poor's Ratings Services and its affiliates.

"*Sale and Leaseback Transaction*" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"*Secured Obligations*" means all present and future obligations and liabilities (whether actual or contingent, secured or unsecured, and whether jointly or severally or in any other capacity whatsoever) at any time due or owing by the Company or by any Subsidiary Guarantor as a Chargor to any Secured Party under the Indenture, the Notes, the Subsidiary Guarantees and the Security Documents.

"*Security Documents*" means, collectively, the pledge or charge agreements and any other agreements or instruments that, including the Indenture, may evidence or create any security interest in favor of the Trustee and/or any Holders in any or all of the Collateral.

"*Senior Indebtedness*" of the Company or any Restricted Subsidiary, as the case may be, means all Indebtedness of the Company or such Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of the Company, the Notes or (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (i) any obligation to the Company or any Restricted Subsidiary, (ii) trade payables or (iii) Indebtedness Incurred in violation of the Indenture.

"*Staged Acquisition Agreement*" means any agreement between the Company or any Restricted Subsidiary and an Independent Third Party seller pursuant to which the Company or such Restricted Subsidiary agrees and is legally committed to acquire any forest asset, real or personal property suitable for use in a Permitted Business from such Independent Third Party seller at a purchase price that is deferred by or paid to such Independent Third Party seller in two or more instalments over the term of such agreement, upon the satisfaction of certain conditions or otherwise specified therein; *provided* in each case that indebtedness thereunder shall only consist of the obligation to pay the purchase price to such Independent Third Party seller and shall not include any obligation to any other Person for borrowed money or otherwise.

"*Stated Maturity*" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"*Subordinated Indebtedness*" means any Indebtedness of the Company or any Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes or any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

"*Subsidiary*" means, with respect to any Person, any corporation, association or other business entity (i) of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person or (ii) of which 50% of the outstanding Voting Stock is owned, directly or indirectly, by such Person and which is "controlled" and consolidated by such Person in accordance with GAAP; *provided* that with respect to clause (ii) the occurrence of any event (other than the issuance or sale of Capital Stock) as a result of which such corporation, association or other business entity ceases to be "controlled" by such Person under GAAP and to constitute a Subsidiary of such Person shall be deemed to be a designation of such corporation, association or other business entity as an Unrestricted Subsidiary by such Person and be subject to the requirements under the first paragraph of "— Designation of Restricted and Unrestricted Subsidiaries" covenant.

"*Subsidiary Guarantee*" means any guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"*Subsidiary Guarantor*" means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"*Subsidiary Guarantor Pledgor*" means any initial Subsidiary Guarantor Pledgor named herein and any other Subsidiary Guarantor which pledges Collateral to secure the obligations of the Company under the Notes and the Indenture and of such Subsidiary Guarantor under its Subsidiary Guarantee; *provided* that a Subsidiary Guarantor Pledgor will not include any Person whose pledge under the Security Documents has been released in accordance with the Security Documents, the Indenture and the Notes.

"*Temporary Cash Investment*" means any of the following:

(1) direct obligations of the United States of America, the People's Republic of China and Hong Kong or any agency of the foregoing or obligations fully and unconditionally guaranteed by the United States of America, the People's Republic of China and Hong Kong or any agency of the foregoing, in each case maturing within one year;

(2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America or any state thereof or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing within 180 days of the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence

under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P;

(5) securities, maturing within one year of the date of acquisition thereof, issued or fully and unconditionally guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof and rated at least "A" by S&P or Moody's;

(6) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) time deposit accounts, certificates of deposit, overnight or call deposits and money market deposits with (i) Bank of China, Bank of Communications, China Agricultural Bank, China Construction Bank, Hongkong and Shanghai Banking Corporation, Huaxia Bank, Industrial and Commercial Bank of China and Shenzhen Ping An Bank, (ii) any other bank or trust company organized under the laws of the PRC or Hong Kong, whose long-term debt rating by Moody's or S&P is as high or higher than any of those banks listed on clause (i) of this paragraph or (iii) any other bank organized under the laws of the PRC or Hong Kong, *provided* that, in the case of clause (iii), such deposits do not exceed US$5.0 million (or the Dollar Equivalent thereof) with any single bank or US$20.0 million (or the Dollar Equivalent thereof) in the aggregate on any date of determination.

"*Total Assets*" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual fiscal period for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile on a timely manner) are available and have been provided to the Trustee; *provided* that only with respect to clause (b)(7) of "— Certain Covenants — Limitation on Indebtedness and Preferred Stock" and the definition of "Permitted Subsidiary Indebtedness", Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the forest assets, real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder, as measured by the purchase price or cost therefore or budgeted cost provided in good faith by the Company or any Restricted Subsidiary to the bank or other similar financial institutional lender providing such Indebtedness.

"*Trade Payables*" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 120 days.

"*Transaction Date*" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"*Unrestricted Subsidiary*" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

"*U.S. Government Obligations*" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the holder thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"*Voting Stock*" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"*Wholly Owned*" means, with respect to any Subsidiary of any Person, the ownership of 100% of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person are entitled to 95% or more of the economic benefits distributable by such Subsidiary. However, for the purposes of "The Subsidiary Guarantees" section, "Wholly Owned" means the ownership of 100% of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly Owned Subsidiaries of such Person.

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.

TAXATION

Cayman Islands and British Virgin Islands Taxation

The following summary of certain Cayman Islands and British Virgin Islands tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

PRC

Under the new PRC EIT Law, enterprises established under the laws of foreign countries or regions with "de facto management bodies" located within the PRC territory, are considered as "resident enterprises", and will be subject to the enterprise income tax at the rate of 25% for their world-wide income. According to the Implementation Regulations of the new PRC EIT Law, "de facto management bodies" means the bodies which conduct overall management and control of such issues as operation, personnel, finance and assets. Since our management is currently and essentially located in the PRC, if our non-PRC members are treated as "resident enterprises" under the new PRC EIT Law: (i) their global income will be subject to the uniform tax rate of 25%; and (ii) any gains realized by our overseas "non-resident enterprise" noteholders from the transfer of our Notes may be regarded as China-sourced income, and as a result, become subject to a withholding tax at the rate up to 10%.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest and principal on the Notes will not be subject to taxation and no withholding will be required on the payment of interest and principal or premium to any holder of the Notes, as the case may be, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

No stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 8 January, 2008

British Virgin Islands

There is no income or other tax of the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

Certain United States Federal Income Tax Considerations

The following discussion summarizes certain United States federal income tax consequences of the purchase, beneficial ownership, and disposition of the Notes. This summary addresses only holders that purchase the Notes at initial issuance and beneficially own such Notes as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as banks, thrifts or other financial institutions; insurance companies; securities dealers or brokers, or traders in securities electing mark to market treatment; regulated investment companies or real estate investment trusts; small business investment companies; S corporations; partnerships or other entities treated as partnerships for United States federal income tax purposes; "controlled foreign corporations" or "passive foreign investment companies" for United States federal income tax purposes; investors whose functional currency is not the U.S. dollar; certain former citizens or residents of the United States; persons holding Notes as part of a "straddle," "hedge," "synthetic security," or "conversion transaction" for United States federal income tax purposes, or as part of some other integrated investment; persons subject to the alternative minimum tax; retirement plans or other tax-exempt entities; or persons holding Notes in tax-deferred or tax-advantaged accounts.

This summary also does not address the tax consequences to holders of interests in, or beneficiaries of, a holder, or any state, local or foreign tax consequences of the purchase, ownership, or disposition of the Notes.

Except as provided below under "— Treatment of Non-U.S. Holders of Notes", this summary deals only with a beneficial owner of the Notes that is (i) a citizen or resident of the United States, (ii) a corporation (or other entity that is treated as a corporation for United States federal income tax purposes) that is created or organized in or under the laws of the United States or any State (including the District of Columbia), (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons, within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), have the authority to control all of its substantial decisions or a trust that has made a valid election under U.S. Treasury regulations to be treated as a domestic trust (each, a "U.S. Holder").

Non-U.S. Holder ("Non-U.S. Holder") means any holder (or beneficial holder) of a Note that is not a U.S. Holder (other than a partnership). An individual may, subject to certain exceptions, be deemed to be a resident of the United States for United States federal income tax purposes by reason of being present in the United States for at least 31 days in the calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year (counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year).

If a partnership holds a Note, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult their own tax advisors regarding the tax consequences of an investment in the Notes (including their status as U.S. Holders or Non-U.S. Holders).

This discussion is based on interpretations of the Code, U.S. Treasury regulations issued thereunder, and rulings, decisions and administrative pronouncements currently in effect (or in some cases proposed), all of which are subject to change. Any such change may be applied retroactively and may adversely affect the United States federal income tax consequences described herein.

Treatment of U.S. Holders of the Notes

The determination of whether an instrument, such as a Note, is debt or equity for United States federal income tax purposes is highly factual. The U.S. Internal Revenue Service (the "IRS") could argue that the Notes should be treated as equity for United States federal income tax purposes. If the IRS successfully asserted that the Notes did not represent debt for United States federal income tax purposes, the Notes would likely be treated as an equity interest in an entity taxable as a corporation. As a result, the amount, timing, character, and source of items of income and deductions of a holder could differ if its Notes were held to constitute equity interests in the Company rather than debt, which could have adverse tax consequences to certain holders. Additionally, if U.S. Holders of the Notes were treated as owning equity interests in the Company for United States federal income tax purposes, they may be subject to the rules relating to "passive foreign investment companies" and "controlled foreign corporations", which could result in adverse tax consequences for such U.S. Holders.

The Company believes the Notes should be treated as debt for all United States federal income tax purposes and the Company intends to treat the Notes as such for all United States federal income tax purposes. Notwithstanding the previous paragraph, except as otherwise specifically set forth herein, this disclosure assumes the characterization of the Notes as debt is correct. The Company and the holders, by such holders' purchase of Notes, will agree to treat the Notes as debt for United States federal income tax purposes.

Prospective U.S. Holders should, in consultation with their own tax advisors, carefully consider the potential United States federal income tax characterization of the Notes as debt of the Company and the various adverse consequences that could be applicable to them in their particular circumstances were an investment in a Note properly treated as equity in the Company, as well as, the potential tax consequences thereof.

Payment of Interest to U.S. Holders

A U.S. Holder will be taxed on any payment of interest on its Notes as ordinary income at the time it receives the interest or when the interest accrues, depending on the U.S. Holder's regular method of accounting for United States federal income tax purposes.

Disposition of a Note

A U.S. Holder's tax basis in its Notes generally will be its cost. A U.S. Holder will generally recognize capital gain or loss on the sale, exchange, or retirement of its Notes equal to the difference between the amount realized on the sale, exchange, or retirement (including the Applicable Premium, if any), excluding any amounts attributable to accrued but unpaid interest (which will be taxable as such), and the tax basis in the Notes. The deductibility of capital losses is subject to certain limitations.

Treatment of Non-U.S. Holders of the Notes

A Non-U.S. Holder of Notes that has no connection with the United States generally should not be subject to U.S. withholding tax on payments in respect of the Notes, and also should not be subject to U.S. federal income tax on any gains recognized in connection with the sale or other disposition of the Notes, provided that the Non-U.S. Holder may be required to make certain tax representations regarding the identity of the beneficial owner of the Notes (and, with respect to any gain recognized in connection with the sale or other disposition of the Notes by a non resident alien individual, such individual is not present in the United States for 183 days or more in the taxable year of the sale or other disposition and certain other conditions are met). Payments in respect of the Notes by the Company to a Non-U.S. Holder and gain realized on the sale, exchange, or retirement of the Notes by a Non U.S. Holder would be subject to United States federal tax if such income is effectively connected with a trade or business conducted by such Non U.S. Holder in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment maintained in the United States by such Non-U.S. Holder).

Information Reporting and Backup Withholding

Interest payments on the Notes and the proceeds received from a sale, exchange, or other disposition of the Notes will be subject to information reporting for holders that are not "exempt recipients" and may also be subject to backup withholding at the rates specified in the Code for holders that fail to provide certain identifying information (such as an accurate taxpayer identification number for U.S. Holders) and meet certain other conditions. In general, backup withholding will apply to any payments, if a U.S. Holder fails to provide an accurate taxpayer identification number in the required manner, or the U.S. Holder is notified by the IRS that it has failed to report all interest and dividends required to be shown on its United States federal income tax returns.

Non-U.S. Holders will generally be exempt from backup withholding and information reporting requirements with respect to payments made outside the United States by a non-U.S. payor. However, payments made in the United States or by brokers or other intermediaries with certain United States connections may be subject to the information reporting and backup withholding rules, in which case Non-U.S. Holders may be required to certify that they are not United States persons or otherwise establish an exemption from these rules. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against a holder's United States federal income tax liability, provided the required information is furnished to the IRS.

Disclosure Requirements for U.S. Holders for Reportable Transactions

Prospective purchasers should consult with their own tax advisors regarding whether they are required to file an IRS Form 8886 in respect of their investment in Notes (relating to certain "reportable transactions"). For example, if a U.S. Holder were to sell its Notes at a loss, it is possible that this loss could constitute a reportable transaction and need to be reported on Form 8886. Significant penalties apply for failure to file Form 8886 when required, and U.S. Holders are therefore urged to consult with their own tax advisors.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN OF THE TAX IMPLICATIONS OF AN INVESTMENT IN THE NOTES. PROSPECTIVE INVESTORS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS PRIOR TO INVESTING TO DETERMINE THE TAX IMPLICATIONS OF SUCH INVESTMENT IN LIGHT OF EACH SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

Internal Revenue Service Circular 230

To ensure compliance with Internal Revenue Service Circular 230, holders are notified that: (A) any discussion of United States federal income tax issues in this offering circular is not intended or written to be relied on, and cannot be relied on, by holders for the purpose of avoiding penalties that maybe imposed on holders under the Internal Revenue Code; (B) the discussion is written in connection with the promotion or marketing of the transaction or matters addressed below; and (C) holders should seek advice based on their particular circumstances from an independent tax advisor.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the purchase agreement dated the date of this offering circular, the Initial Purchasers have agreed to purchase, and we have agreed to sell to the Initial Purchasers, the principal amount of the Notes set forth opposite each of the initial purchaser's name.

Initial Purchaser	Principal Amount of Notes
Deutsche Bank AG, Singapore Branch	US$100,000,000
Standard Chartered Bank	US$100,000,000
UBS AG, Hong Kong Branch	US$100,000,000
Total	US$300,000,000

The purchase agreement provides that the obligation of the Initial Purchasers to purchase the Notes is subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the issue price set forth on the cover page of this offering circular within the United States to qualified institutional buyers (as defined in Rule 144A) ("QIBs") in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

We have agreed that, for a period of 90 days from the date of this offering circular, we will not, without the prior written consent of the Initial Purchasers, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any debt securities issued or guaranteed by us. The Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Approval-in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with the offering, the Initial Purchasers may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the initial purchaser of a greater number of Notes than they are required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Initial Purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Initial Purchasers may conduct these transactions in the over-the-counter market or otherwise. If the Initial Purchasers commence any of these transactions, they may discontinue them at any time.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering circular, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in three business days, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wishes to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

No action has been taken or will be taken in any country or jurisdiction that would permit a public offering of the Notes or the possession or distribution of the offering circular or any other offering material relating to the Notes in any jurisdiction where action for any such purpose may be required.

The Initial Purchasers have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of notes described in this offering circular may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the notes that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of notes described in this offering circular located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an "offer to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the notes have not authorized and do not authorize the making of any offer of notes through any financial intermediary on their behalf, other than offers made by the Initial Purchasers with a view to the final placement of the notes as contemplated in this offering circular. Accordingly, no purchaser of the notes, other than the Initial Purchasers, is authorized to make any further offer of the notes on behalf of the sellers or the initial purchaser.

Notice to Prospective Investors in the United Kingdom

No invitation or inducement to engage in investment activity (within the meanings of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by the Initial Purchasers in connection with the issue or sale of the Notes may be communicated or caused to be communicated except in circumstances in which section 21(1) of the FSMA does not apply to the Initial Purchasers. All applicable provisions of the FSMA must be complied with respect to anything done or to be done by the Initial Purchasers in relation to any Notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Hong Kong

This offering circular has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this offering circular may not be issued, circulated or distributed in Hong Kong. A copy of this offering circular may, however, be issued to a limited number of prospective applicants for the Notes in Hong Kong in a manner which does not constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571. Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the "FIEL"), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for reoffering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

Notice to Prospective Investors in Singapore

This offering circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:
- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;

- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

Where the Notes are initially acquired in reliance of an exemption under Section 274 or Section 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

- an institutional investor (as defined in Section 4A of the SFA);
- a relevant person (as defined in Section 275(2) of the SFA); or
- any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless the securities acquired are of the same class as our other securities:

- an offer of which has previously been made in or accompanied by a prospectus: and
- which are listed for quotation on a securities exchange.

No advertisement may be made offering or calling attention to an offer or intended offer of the Notes.

Notice to Prospective Investors in PRC

This offering circular does not constitute a public offer of the Notes, whether by sale of by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering circular or any other document.

Notice to Prospective Investors in the Cayman Islands

No Notes will be offered or sold to the public in the Cayman Islands.

Notice to Prospective Investors in the British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer sale, resale, charge or other transfer of the Notes.

United States

The Notes have not been and will not be registered under the U.S. Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S under the U.S. Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Accordingly, the Notes are being offered and sold only (1) to QIBs in compliance with Rule 144A and (2) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to:

1. represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is: (i) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A; or (ii) a purchaser that is outside the United States;

2. acknowledge that the Notes have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United State except as set forth below;

3. agree that if it is a purchaser other than a purchaser outside the United States and if it should resell or otherwise transfer the Notes, it will do so only: (a) if such purchaser is an initial investor, (i) to us or any subsidiary thereof; (ii) inside the United States to a QIB in compliance with Rule 144A; (iii) outside the United States in an offshore transaction in compliance with Rule 904 under the U.S. Securities Act (if available); or (iv) pursuant to an exemption from registration under the U.S. Securities Act provided by Rule 144 (if available), in each case in accordance with any applicable securities law of any State of the United States or (b) pursuant to an effective registration statement under the U.S. Securities Act;

4. agree that it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes;

5. understand that if it is a purchaser outside the United States, the Notes will be represented by the Regulation S Global Note and that transfers thereto are restricted as described under "Description of the Notes — Book-Entry; Delivery and Form". If it is a QIB, it understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note. Before any interest in the Restricted Global Note may be offered, sold, charged or otherwise transferred to a person who is not a QIB, the transferee will be required to provide the Trustee with a written certification (the form of which certification can be obtained from the Trustee) as to compliance with the transfer restriction referred to above;

6. understand that each Note sold within the United States will bear a legend to the following effect unless otherwise agreed by us and the holder thereof (unless such Note has been sold pursuant to a registration statement that has been declared effective under the U.S. Securities Act):

   THIS NOTE AND THE SUBSIDIARY GUARANTEES RELATED TO THIS NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND ACCORDINGLY, THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THIS NOTE IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT WITHIN THE TIME PERIOD REFERRED TO IN RULE 144(d) UNDER THE SECURITIES ACT AS IN EFFECT WITH RESPECT TO SUCH TRANSFER, RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) IF SUCH PURCHASER IS AN INITIAL INVESTOR, (I) TO CHINA FORESTRY HOLDINGS CO., LTD.; (II) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT; (III) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT; (IV) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE); (B) IF SUCH PURCHASER IS A SUBSEQUENT INVESTOR OF AN INTEREST IN THE RESTRICTED GLOBAL NOTE, AS SET FORTH IN (A) ABOVE AND, IN ADDITION, PURSUANT TO ANY AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS UNDER THE SECURITIES ACT (PROVIDED THAT AS A CONDITION TO THE REGISTRATION OF TRANSFER OF ANY NOTES OTHERWISE THAN AS DESCRIBED IN (A)(I), (A)(II) OR (A)(III) ABOVE OR (C) BELOW, THE COMPANY, THE SUBSIDIARY GUARANTORS, THE TRUSTEE OR THE PAYING AGENT, TRANSFER AGENT AND REGISTRAR MAY, IN CIRCUMSTANCES THAT ANY OF THEM DEEMS APPROPRIATE, REQUIRE EVIDENCE AS TO COMPLIANCE WITH ANY SUCH EXEMPTION); OR (C) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN THE TIME PERIOD REFERRED TO ABOVE, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE HEREOF RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO THE TRUSTEE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION" AND "UNITED STATES" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. THE INDENTURE CONTAINS A PROVISION REQUIRING THE TRUSTEE AND THE PAYING AGENT AND TRANSFER AGENT TO REFUSE TO REGISTER ANY TRANSFER OF THIS NOTE IN VIOLATION OF THE FOREGOING RESTRICTIONS; and

7. acknowledge that we, the Paying Agent and Transfer Agent, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and agree that if any of the acknowledgements, representations or agreements deemed to have been made by its purchase of the Notes are no longer accurate, it shall promptly notify us, the Paying Agent and Transfer Agent and the Initial Purchasers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

RATINGS

The Notes have been rated B+ by Standard and Poor's Ratings Services and Ba3 by Moody's Investors Service. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes in as much as such ratings do not comment as to market price or suitably for a particular investor. There can be no assurance that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Orrick, Herrington & Sutcliffe as to United States federal, New York and Hong Kong law. Certain legal matters as to the law of the People's Republic of China will be passed upon for us by Commerce & Finance Law Office. Certain legal matters as to Cayman Islands law and British Virgin Islands law will be passed upon for us by Conyers Dill & Pearman. Certain legal matters will be passed upon for the Initial Purchasers as to United States federal and New York law by O'Melveny & Myers LLP. Certain legal matters as to PRC law will be passed upon for the Initial Purchasers by Jia Yuan Law Firm. O'Melveny & Myers LLP may rely on Jia Yuan Law Firm with respect to matters governed by PRC law.

INDEPENDENT AUDITORS

Our consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009, included herein have been audited by KPMG, independent auditors, as stated in their report appearing herein.

EXPERTS

The report of Chandler Fraser Keating Ltd., an independent forestry valuer, located at Level 1 Quadrant House, 1277 Haupapa Street, P O Box 2246, Rotorua, New Zealand, a copy of which appears as Appendix A to this offering circular, has been included herein with the consent of and in reliance of the authority of the firm as experts in valuing plantation assets.

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2010

Independent auditor's report to the directors of China Forestry Holdings Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Forestry Holdings Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages F-4 to F-33, which comprise the consolidated balance sheets as at 31 December 2007, 2008 and 2009, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Independent auditor's report to the directors of China Forestry Holdings Co., Ltd. (continued)
(Incorporated in the Cayman Islands with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and of the Group's profit and cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
3 November 2010

Consolidated Income Statements
for the years ended 31 December 2007, 2008 and 2009
(Expressed in Renminbi)

	Note	Years ended 31 December 2007 RMB	2008 RMB	2009 RMB
Turnover	4	160,318,269	544,947,744	793,692,961
Other operating income	5	81,796	119,636	2,590,962
Amortisation of insurance premium		(2,083,064)	(9,929,155)	(19,900,918)
Amortisation of lease prepayments	11	(724,362)	(4,916,734)	(7,722,471)
Auditor's remuneration		(30,000)	(132,468)	(985,316)
Changes in fair value of plantation assets less costs to sell	12			
- upon initial acquisition of the plantation assets		596,384,002	6,635,132,871	—
- changes during the year		202,097,037	(610,768,672)	681,338,794
Consultancy fees		(270,000)	(21,048,083)	(7,860,613)
Depreciation	10	(186,272)	(230,112)	(213,058)
Foreign exchange loss		—	(3,053,644)	(3,168,077)
Operating expenses for logging activities		(38,729,085)	(145,559,950)	(185,801,450)
Other operating expenses		(5,501,365)	(14,286,072)	(33,631,036)
Rental expenses of properties		(2,233,402)	(1,366,471)	(2,004,392)
Reversal of fair value of plantation assets upon logging and sales of the plantation assets	13	(121,116,600)	(384,853,771)	(607,994,691)
Staff costs	6	(3,519,494)	(98,198,144)	(16,777,851)
Travelling expenses		(932,214)	(1,708,679)	(2,040,181)
Profit from operations		783,555,246	5,884,148,296	589,522,663
Financing income		174,094	1,480,623	532,624
Financing expenses		—	(3,854,221)	(78,424,874)
Net financing income/(expenses)	7	174,094	(2,373,598)	(77,892,250)
Profit before taxation		783,729,340	5,881,774,698	511,630,413
Income tax	8	—	—	—
Profit for the year		783,729,340	5,881,774,698	511,630,413
Attributable to:				
Equity shareholders of the Company		783,729,340	5,881,774,698	511,630,413
Earnings per share (RMB)	9			
- Basic and diluted		0.35	2.61	0.22

The notes on F-9 to F-33 form part of these financial statements.

Consolidated Statements of Comprehensive Income
for the years ended 31 December 2007, 2008 and 2009
(Expressed in Renminbi)

	Years ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Profit for the year	783,729,340	5,881,774,698	511,630,413
Other comprehensive income for the year			
Foreign currency translation differences for foreign operations	—	(273,221)	(1,060,190)
Total comprehensive income for the year	783,729,340	5,881,501,477	510,570,223
Attributable to:			
Equity shareholders of the Company	783,729,340	5,881,501,477	510,570,223

The notes on F-9 to F-33 form part of these financial statements.

Consolidated Balance Sheets
at 31 December 2007, 2008 and 2009
(Expressed in Renminbi)

	Note	At 31 December 2007	2008	2009
		RMB	RMB	RMB
Non-current assets				
Property, plant and equipment, net	10	442,851	6,951,089	22,121,973
Lease prepayments	11	31,468,446	225,826,779	218,104,308
Plantation assets	12	1,338,200,000	7,693,000,000	7,767,000,000
Total non-current assets		1,370,111,297	7,925,777,868	8,007,226,281
Current assets				
Inventories - timber logs	13	346,409	—	—
Other receivables	14	21,329,976	37,580,311	55,321,994
Cash and cash equivalents	15	1,028,859	104,530,763	1,706,636,428
Total current assets		22,705,244	142,111,074	1,761,958,422
Current liabilities				
Other payables	16	(2,269,073)	(311,485,494)	(174,725,496)
Total current liabilities		(2,269,073)	(311,485,494)	(174,725,496)
Net current assets/(liabilities)		20,436,171	(169,374,420)	1,587,232,926
Total assets less current liabilities		1,390,547,468	7,756,403,448	9,594,459,207
Non-current liabilities				
Other payables	16	—	(321,053,207)	—
Total non-current liabilities		—	(321,053,207)	—
Net assets		1,390,547,468	7,435,350,241	9,594,459,207
Capital and reserves	18			
Share capital		10,000,000	232,245	20,797,400
Reserves		1,380,547,468	7,435,117,996	9,573,661,807
Total equity attributable to equity shareholders of the Company		1,390,547,468	7,435,350,241	9,594,459,207

Approved and authorised for issue by the board of directors on 3 November 2010.

Li Kwok Cheong
Director

Li Han Chun
Director

The notes on F-9 to F-33 form part of these financial statements.

Consolidated Statements of Changes in Equity
for the years ended 31 December 2007, 2008 and 2009
(Expressed in Renminbi)

	Note	Share Capital	Share premium	Statutory surplus reserve	Capital reserve	Exchange reserve	Retained earnings	Total equity
		RMB	RMB	RMB	RMB	RMB	RMB	RMB
At 1 January 2007		10,000,001	—	16,706,923	—	—	580,111,205	606,818,129
Changes in equity for 2007:								
Reorganisation	18	(1)	—	—	—	—	—	(1)
Total comprehensive income for the year		—	—	—	—	—	783,729,340	783,729,340
At 31 December 2007		10,000,000	—	16,706,923	—	—	1,363,840,545	1,390,547,468
At 1 January 2008		10,000,000	—	16,706,923	—	—	1,363,840,545	1,390,547,468
Changes in equity for 2008:								
Shares issued	18	232,245	247,886,109	—	—	—	—	248,118,354
Payment to shareholder upon reorganisation	18	(10,000,000)	—	(16,706,923)	—	—	(146,667,068)	(173,373,991)
Equity-settled share-based transaction	17	—	—	—	88,556,933	—	—	88,556,933
Appropriation to statutory reserve		—	—	170,865,000	—	—	(170,865,000)	—
Total comprehensive income for the year		—	—	—	—	(273,221)	5,881,774,698	5,881,501,477
At 31 December 2008		232,245	247,886,109	170,865,000	88,556,933	(273,221)	6,928,083,175	7,435,350,241
At 1 January 2009		232,245	247,886,109	170,865,000	88,556,933	(273,221)	6,928,083,175	7,435,350,241
Changes in equity for 2009:								
Shares issued	18	24,361	280,120,409	—	—	—	—	280,144,770
Capitalisation issue	18	15,037,670	(15,037,670)	—	—	—	—	—
Insurance of share for placing and public offering		5,503,124	1,472,301,084	—	—	—	—	1,477,804,208
Share issuance cost	18	—	(109,410,235)	—	—	—	—	(109,410,235)
Total comprehensive income for the year		—	—	—	—	(1,060,190)	511,630,413	510,570,223
At 31 December 2009		20,797,400	1,875,859,697	170,865,000	88,556,933	(1,333,411)	7,439,713,588	9,594,459,207

The notes on F-9 to F-33 form part of these financial statements.

Consolidated Cash Flow Statements
for the years ended 31 December 2007, 2008 and 2009
(Expressed in Renminbi)

	Note	2007	2008	2009
		Years ended 31 December		
		RMB	**RMB**	**RMB**
Operating activities				
Net cash generated from operating activities	15(b)	96,042,152	376,592,857	591,329,504
Investing activities				
Payment for purchase of fixed assets		(26,205)	(7,271,789)	(14,282,402)
Capital expenditure on lease prepayments		(22,550,995)	(68,423,790)	(130,862,766)
Capital expenditure on plantation assets		(97,597,794)	(269,840,939)	(445,026,190)
Proceeds from disposal of plantation assets		—	74,800	—
Interest paid		—	(3,854,221)	(78,424,874)
Interest received		174,094	1,480,623	532,624
Net cash used in investing activities		(120,000,900)	(347,835,316)	(668,063,608)
Financing activities				
Proceeds from issue of shares, net of issuance cost		—	248,118,354	1,679,510,823
Payment to shareholder upon Reorganisation		—	(173,373,991)	—
Net cash generated from financing activities		—	74,744,363	1,679,510,823
Net movement in cash and cash equivalents		(23,958,748)	103,501,904	1,602,776,719
Cash and cash equivalents at 1 January		24,987,607	1,028,859	104,530,763
Effect of foreign exchange rate change		—	—	(671,054)
Cash and cash equivalents at 31 December	15(a)	1,028,859	104,530,763	1,706,636,428

The notes on F-9 to F-33 form part of these financial statements.

Notes to the Financial Statements

1 General Information and Group Reorganisation

China Forestry Holdings Co., Ltd. (the "Company") was incorporated in the Cayman Islands on 21 December 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The consolidated financial statements for the years ended 31 December 2007, 2008 and 2009 comprise the Company and its subsidiaries (collectively referred to as the "Group").

The companies comprising the Group underwent a reorganisation (the "Reorganisation") to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The timber and forestry related business together with the relevant assets and liabilities representing the only business of Beijing Zhaolin Forestry Resources Development Co., Ltd. (the "Predecessor Entity"), were transferred to certain companies comprising the Group. On 19 March 2008, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 19 November 2009 (the "Prospectus").

The Company's shares were listed on the Stock Exchange on 3 December 2009.

2 Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. Accordingly, the relevant assets and liabilities of the Predecessor Entity transferred to the companies comprising the Group have been recognised at historical costs.

The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for the years presented, rather than from the date of the Reorganisation. Accordingly, the consolidated results of the Group for the years ended 31 December 2007, 2008 and 2009 included the results of the Company and its subsidiaries with effect from 1 January 2007 or since their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the three years presented. All material intra group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

The details of the subsidiaries directly or indirectly owned by the Company and the Predecessor Entity are set out in notes 25 and 26.

3 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). A summary of the significant accounting policies adopted by the Group is set out below. The accounting policies set out below have been applied consistently to all years presented in these financial statements.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the three-year period ended 31 December 2009 of the Group and the Company. For the purposes of preparing these financial statements, the Group has adopted all these new and revised IFRSs to the years ended 31 December 2007, 2008 and 2009, except for any new standards or interpretations that are not yet effective for the year ended 31 December 2009. The revised and new accounting standards and interpretations issued but not yet effective for the year ended 31 December 2009 are set out in note 27.

(b) Basis of preparation of the financial statements

These financial statements are presented in Renminbi ("RMB"), rounded to the nearest yuan. The functional currency of the entities within the Group is Hong Kong dollars ("HKD") except for the subsidiaries established in the People's Republic of China (the "PRC") where the functional currency is RMB. As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group. These financial statements are prepared on the historical cost basis except plantation assets (see note 3(g)) that are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on these financial statements and major sources of estimation uncertainty are discussed in note 24.

(c) Basis of consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in these financial statements from the date that control commences until the date that control ceases.

(ii) *Transactions eliminated on consolidation*

Intragroup balances and transactions and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing these financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iii) *Business combination under common control*

Business combinations arising from transfers of businesses that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements.

(d) Foreign currency

(i) *Foreign currency transactions*

Foreign currency transactions are translated at the foreign exchange rates ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(ii) *Foreign operations*

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. The assets and liabilities of foreign operations are translated into RMB at the closing foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(e) Property, plant and equipment

(i) *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation (see below) and accumulated impairment losses (see note 3(k)). Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

(ii) *Subsequent costs*

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) *Depreciation*

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Lease prepayments

Lease prepayments represent payments made to acquire land use rights. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 3(k)). Amortisation is charged to profit or loss on a straight-line basis over the respective lease terms of the rights.

(g) Plantation assets

Plantation assets comprise forest crop in mainland China.

Plantation assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss. Costs to sell include all costs that would be necessary to sell the assets. Standing timber in transferred to inventory at its fair value less estimated costs to sell at the date of harvest.

The fair value of plantation assets is determined independently by professional valuers.

(h) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 3(k)). An impairment allowance for doubtful receivables is recognised based upon the evaluation of the recoverability of these receivables at the balance sheet date.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable 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 (see note 3(g)).

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

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(k) Impairment

(i) *Impairment of receivables*

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where the assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for the assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent year the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly. Subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- lease prepayments; and
- investment in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the assets' carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(l) Employee benefits

(i) *Short term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(ii) *Defined contribution plan*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution retirement schemes are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) *Share-based payment transactions*

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Revenue

(i) *Sale of goods*

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. For sales of timber logs, usually transfer occurs when the product is received by customer and the buyer generally has no right of return for the product.

(ii) *Government grants*

An unconditional government grant related to the plantation assets is recognised in profit or loss as other income when the grant becomes receivable.

(p) Operating lease charges

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the terms of the respective leases. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

(q) Finance income and expenses

Interest income is recognised in profit or loss as it accrues using the effective interest method.

Finance costs that are not directly attributable to the acquisition of a qualifying asset are recognised in profit or loss using the effective interest rate method.

(r) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

(s) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member or such an individual, or is an entity under the control, joint control or significant influence or such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in these financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

For each of the years ended 31 December 2007, 2008 and 2009, the Group was solely engaged in the sale of timber logs. Therefore, no analysis by business segment has been presented. In addition, the Group's turnover and operating profit are almost entirely derived from its operations in the PRC. Accordingly, no analysis by geographical segment has been presented.

4 Turnover

The principal activities of the Group are the management of forests and sale of timber logs in the PRC.

Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts. Pursuant to tax notices from Beijing State Tax Bureau, the applicable value added tax rate for the Predecessor Entity was 4% for the period from January 2007 to March 2008. Subsequent to the consummation of the Reorganisation, the applicable value added tax rate for the Group is 13% according to Cai Shui [1994] No. 4 issued by the Ministry of Finance and the State Administration of Taxation of the PRC.

The Group's customer base includes five, nil, and four customers with whom transactions have exceeded 10% of the Group's revenues for the years ended 31 December 2007, 2008 and 2009 respectively. In the years ended 31 December 2007, 2008 and 2009, revenues from sale of timber logs in the PRC to these customers amounted to approximately RMB136,811,538, nil and RMB391,335,728 respectively. Since most of the customers are requested to pay in full before taking delivery of timber logs, the credit risk of the Group is considered insignificant.

5 Other operating income

	Years ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Government grants	81,796	119,636	655,897
Other trading income	—	—	1,933,733
Others	—	—	1,332
	81,796	119,636	2,590,962

6 Staff costs

	Years ended 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Salaries, wages and other benefits	3,176,534	9,133,319	15,433,698
Contributions to defined contribution retirement schemes	342,960	507,892	1,344,153
Equity-settled share-based payment expenses (see note 17)	—	88,556,933	—
	3,519,494	98,198,144	16,777,851

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes ("the Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of 20% of the standard wages determined by the relevant authorities during the years ended 31 December 2007, 2008 and 2009. Contributions to the Schemes vest immediately.

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF scheme vest immediately.

Save for the above schemes, the Group has no other material obligation for the payment of retirement benefits beyond the contributions described above.

7 Net financing income/(expenses)

	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	**RMB**	**RMB**
Interest income earned from deposits with bank	174,094	1,480,623	532,624
Interest paid on payable for forest acquisition (see note 16)	—	(3,854,221)	(78,424,874)
	174,094	(2,373,598)	(77,892,250)

8 Income tax

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(b) The provisions for Hong Kong Profits Tax for the years ended 31 December 2007, 2008 and 2009 were calculated at 17.5%, 16.5% and 16.5% respectively. No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the years ended 31 December 2007, 2008 and 2009.

(c) Pursuant to the tax notice, Cai Shui [2001] No. 171, the entity in the PRC is not liable to income tax for the year ended 31 December 2007 because the income of this entity is derived from the forestry business.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which took effect on 1 January 2008. From 1 January 2008, the corporate income tax rate was adjusted to the standard rate of 25% with effect from 1 January 2008. Pursuant to section 27 of the new tax law and section 86 of the Implementation Regulations of the new tax law, the entity's income derived from forestry business is exempt from income tax. The following is a reconciliation between tax expense and accounting profit at applicable tax rate:

	Years ended 31 December		
	2007	**2008**	**2009**
	RMB	**RMB**	**RMB**
Profit before taxation	783,729,340	5,881,774,698	511,630,413
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	258,694,618	1,492,872,022	133,777,945
Tax effect of tax concession	(258,700,263)	(1,493,040,512)	(134,269,208)
Tax effect of unused tax losses not recognised	5,645	168,490	491,263
Actual tax expense	—	—	—

Under the new tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 are subject to the above-mentioned withholding tax. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future. The aggregate amounts of temporary differences associated with undistributed retained earnings amounted to RMB7,022,603,258 and RMB7,559,680,090 as at 31 December 2008 and 2009 respectively, and the related deferred tax liabilities which were not recognised because distribution of earnings was not expected in the foreseeable future amounted to RMB351,130,163 and RMB377,984,005 as at 31 December 2008 and 2009 respectively.

9 Earnings per share

The calculation of basic earnings per share for the years ended 31 December 2007 and 2008 are based on the profit attributable to equity shareholders of the Company of RMB783,729,340 and RMB5,881,774,698 respectively and 2,250,000,000 shares in issue as at the date of the Prospectus as if the shares were outstanding throughout the entire years of 2007 and 2008.

The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity shareholders of the Company of RMB511,630,413 and weighted average number of 2,308,694,000 ordinary shares in issue during the year.

The weighted average number of ordinary shares for the year ended 31 December 2009 is calculated as follows:

	2009
	’000
Issuance of shares upon incorporation (note 18(b)(i))	—
Issuance of shares on Reorganisation (note 18(b)(iii)	35,565
Effect of capitalisation issue (note 18(b)(iv))	2,214,435
Issuance of shares for placing and public offering (note 18(b)(v))	58,694
Weighted average number of ordinary shares at 31 December	2,308,694

There were no potential dilutive ordinary shares during the years ended 31 December 2007, 2008 and 2009.

10 Property, plant and equipment, net

	Leasehold improvement	Office equipment	Furniture and fittings	Motor vehicles	ERP system	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Cost:						
At 1 January 2007	—	522,134	425,049	—	—	947,183
Additions	—	26,205	—	—	—	26,205
At 31 December 2007	—	548,339	425,049	—	—	973,388
At 1 January 2008	—	548,339	425,049	—	—	973,388
Additions	121,035	257,592	356,680	314,677	6,221,805	7,271,789
Disposals	—	(567,021)	(630,096)	—	—	(1,197,117)
At 31 December 2008	121,035	238,910	151,633	314,677	6,221,805	7,048,060
At 1 January 2009	121,035	238,910	151,633	314,677	6,221,805	7,048,060
Additions	—	149,933	13,158,691	573,778	1,501,540	15,383,942
At 31 December 2009	121,035	388,843	13,310,324	888,455	7,723,345	22,432,002
Accumulated depreciation:						
At 1 January 2007	—	243,212	101,053	—	—	344,265
Charge for the year	—	104,663	81,609	—	—	186,272
At 31 December 2007	—	347,875	182,662	—	—	530,537
At 1 January 2008	—	347,875	182,662	—	—	530,537
Charge for the year	60,518	65,048	99,564	4,982	—	230,112
Disposals	—	(392,125)	(271,553)	—	—	(663,678)
At 31 December 2008	60,518	20,798	10,673	4,982	—	96,971
At 1 January 2009	60,518	20,798	10,673	4,982	—	96,971
Charge for the year	60,517	59,177	32,896	60,468	—	213,058
At 31 December 2009	121,035	79,975	43,569	65,450	—	310,029
Net book value:						
At 31 December 2007	—	200,464	242,387	—	—	442,851
At 31 December 2008	60,517	218,112	140,960	309,695	6,221,805	6,951,089
At 31 December 2009	—	308,868	13,266,755	823,005	7,723,345	22,121,973

11 Lease prepayments

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Cost:			
At 1 January	11,045,587	32,596,582	231,870,305
Additions	21,550,995	199,286,556	—
Disposals	—	(12,833)	—
At 31 December	32,596,582	231,870,305	231,870,305
Accumulated amortisation:			
At 1 January	403,774	1,128,136	6,043,526
Charge for the year	724,362	4,916,734	7,722,471
Disposals	—	(1,344)	—
At 31 December	1,128,136	6,043,526	13,765,997
Net book value:			
A 31 December	31,468,446	225,826,779	218,104,308

Lease prepayments represent land use rights granted to the Group in respect of its plantation assets in the PRC, which expire during the period from 2016 to 2072. Usage of the land is regulated by the Implementation Regulations of PRC Forest Law issued by the State Council of the PRC.

12 Plantation assets

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
At 1 January	566,900,000	1,338,200,000	7,693,000,000
Additions (note (i))	93,597,794	714,986,766	655,897
Harvested timber transferred to inventories	(120,778,833)	(384,519,909)	(607,994,691)
Changes in fair value less costs to sell (note (ii))	798,481,039	6,024,364,199	681,338,794
Disposal of plantation assets	—	(31,056)	—
At 31 December	1,338,200,000	7,693,000,000	7,767,000,000

Notes:

(i) The additions represent the considerations paid for the acquisitions of forests (excluding the land use rights) and the value of tree saplings planted during the years. The consideration of individual acquisition is agreed on a negotiation basis.

(ii) Changes in fair value less costs to sell include changes upon initial acquisition of the plantation assets and changes during the years.

The changes in fair value less costs to sell upon initial acquisition of the plantation assets represent the difference between the acquisition cost and the value of the new plantation assets at the date of acquisition.

The changes in fair value less costs to sell during the year represent the aggregate of the difference between the value of the existing plantation assets as of the beginning and end of the financial year and the difference between the value of the new plantation assets as of the second day of acquisition and end of the financial year.

At 31 December 2007, 2008 and 2009, plantation assets represent standing timber acquired, planted and managed by the Group and comprise approximately 12,453 hectares, 171,780 hectares and 171,780 hectares of tree plantations respectively which range from 20 to 24 years old. During the years ended 31 December 2007, 2008 and 2009, the Group harvested approximately 169,329 cubic metres, 519,928 cubic metres and 626,490 cubic metres of wood respectively, which had a fair value less costs to sell of RMB120,778,833, RMB384,519,909 and RMB607,994,691 respectively at the date of harvest.

The Group's plantation assets in the PRC were independently valued by Chandler Fraser Keating Limited ("CFK"). CFK is a privately owned specialist forest consulting firm headquartered in New Zealand. In view of the non-availability of market value for trees in the PRC, CFK has applied the net present value approach whereby projected future net cash flows, based on its assessment of current timber log prices, were discounted at the rates of 9% for the year ended 31 December 2007 and 9% to 13% for the years ended 31 December 2008 and 2009 for plantation assets for the year and then applied to pre-tax cash flows to provide a current market value of the plantation assets.

The principal valuation methodology and assumptions adopted are as follows:

- Stands are scheduled to be harvested at or near their optimum economic rotation age;

- The cash flows are those arising from the current rotation of trees only. No account was taken of revenues or costs from re-establishment following harvest, or of land not yet planted;

- The cash flows do not take into account income taxation and finance costs;

- The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forest is not taken into account; and

- Costs are current average costs. No allowance has been made for cost improvements in future operations.

CFK and management review these assumptions and estimates periodically to identify any significant change in the fair value. During the year ended 31 December 2008, CFK and the Group revised the estimated yield of the plantation assets based on the recent harvest information and latest forest survey data. This revision in estimated yield resulted in an estimated lower woodflow from the plantation assets in future periods and a decrease in fair value of plantation assets as at 31 December 2008 by RMB584,000,000, which has been recognised in the year ended 31 December 2008 as changes in fair value of plantation assets less costs to sell in the consolidated income statement.

13 Inventories

Inventories represent timber logs harvested from plantation assets.

An analysis of the amount of inventories recognised as an expense is as follows:

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
At 1 January	684,176	346,409	—
Harvested timber transferred from plantation assets	120,778,833	384,519,909	607,994,691
Reversal of fair value of plantation assets upon logging and sales of the plantation assets	(121,116,600)	(384,853,771)	(607,994,691)
Write off of inventories	—	(12,547)	—
At 31 December	346,409	—	—
Carrying amount of inventories sold	121,116,600	384,853,771	607,994,691

14 Other receivables

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Other receivables	—	225,022	1,800,767
Prepaid insurance premium	15,362,199	21,324,175	17,479,682
Other prepayments and deposits	5,967,777	16,031,114	36,041,545
	21,329,976	37,580,311	55,321,994

The Group enters into a number of insurance policies for its plantation assets and these policies typically run for 1 year to 4 years. The amounts of the Group's prepaid insurance premium expected to be expensed after more than one year are RMB11,768,685, RMB8,556,326 and RMB3,637,953 at 31 December 2007, 2008 and 2009 respectively. The prepaid insurance premium is amortised on a systematic basis over the insurance term. All of other receivables are expected to be recovered or recognised as expense within one year.

15 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	At 31 December		
	2007	2008	2009
	RMB	RMB	RMB
Cash at bank and in hand	1,028,859	104,530,763	1,706,636,428

The Group held cash and cash equivalents in the PRC of RMB1,028,859, RMB104,511,396 and RMB376,123,689 as at 31 December 2007, 2008 and 2009 respectively. The conversion of RMB denominated balance into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

(b) Reconciliation of profit before taxation to net cash generated from operations:

	Note	Year ended 31 December 2007	2008	2009
		RMB	RMB	RMB
Operating activities				
Profit before taxation		783,729,340	5,881,774,698	511,630,413
Adjustments for:				
- Amortisation of insurance premium		2,083,064	9,929,155	19,900,918
- Amortisation of lease prepayments		724,362	4,916,734	7,722,471
- Changes in fair value of plantation assets less costs to sell		(798,481,039)	(6,024,364,199)	(681,338,794)
- Depreciation		186,272	230,112	213,058
- Gain on disposal of plantation assets		—	(32,255)	—
- Loss on disposal of fixed assets		—	533,439	—
- Equity-settled share-based payment expenses	17	—	88,556,933	—
- Interest expense		—	3,854,221	78,424,874
- Interest income		(174,094)	(1,480,623)	(532,624)
Operating loss before changes in working capital		(11,932,095)	(36,081,785)	(63,979,684)
Decrease in inventories harvested timber transferred to inventories (Note (a))		121,116,600	384,866,318	607,994,691
Increase in other receivables		(12,174,952)	(26,452,712)	(45,776,210)
Increase/(decrease) in other payables		(967,401)	54,261,036	93,090,707
Net cash generated from operating Activities		96,042,152	376,592,857	591,329,504

Note (a): This item includes (i) harvest timber transferred to inventories as disclosed in note 13; and (ii) changes in inventories.

16 Other payables

	At 31 December 2007	2008	2009
	RMB	RMB	RMB
Other payables and accrued expenses	2,269,073	50,329,769	174,497,904
Payable for forest acquisition	—	575,888,956	—
Payable to the Chairman of the Company	—	6,319,976	227,592
	2,269,073	632,538,701	174,725,496

Other payables and accrued expenses include salary and staff welfare payables, VAT payables and other miscellaneous payables. As at 31 December 2008, other payables to the Chairman of the Company represents payment of listing expense made on behalf of the Group.

Payable for forest acquisition as at 31 December 2008 represents the present value of the considerations for acquisition for 100,000 hectares of forests in Yunnan Province, the PRC. Implicit interest relating to this payable not yet recognised as at 31 December 2008 amounted to RMB78,424,874, which has been expensed to net financing costs in 2009 upon the settlement of the payable for forest acquisition.

The Group obtained a non-binding credit facility of not more than RMB1,000 million from Shenzhen Development Bank. Drawdown of the facility is subject to bank's assessment and approval. The facility is valid during the period from September 2008 to September 2011. Up to 31 December 2009, the Group has not drawn down on the facility.

17 Equity-settled share-based transaction

Li Han Chun, the director and Chief Executive Officer of the Company, joined the Company in 2004. In order to recognise the contribution of Li Han Chun to the Group, the Chairman transferred an aggregate of 3,200,000 shares ("share transfer") at a cash consideration of US$32,000,000 to Li Han Chun on 31 March 2008. The consideration of US$32,000,000 was determined by reference to the transactions with certain independent foreign investors on 8 January and 18 March 2008. Li Han Chun made a payment of US$2,000,000 to the Chairman on 31 March 2008. As a result of the transfer, Top Wisdom Overseas Holdings Limited, a company wholly owned by Li Han Chun, became a shareholder of the Company and is eligible to the dividend and voting rights 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 the share transfer, the above parties signed a supplemental agreement ("supplemental agreement") which provides for the settlement of the remaining US$30,000,000 in cash in 8 annual instalments commencing on 31 December 2010 with no interest charge, but in return Li Han Chun is required to pledge the 1,066,667 acquired shares to the Chairman. Pursuant to the supplemental agreement, the Chairman has a full recourse of the loan from Li Han Chun in case of default in repayment. Given the terms and conditions set out in the share transfer arrangement and supplemental agreement, the benefits of RMB88,556,933 in connection with the share transfer, being the difference of the fair value of shares transferred and the present value of consideration paid and payable by Li Han Chun, were accounted as a share-based payment and recognised as staff costs on 31 March 2008.

18 Capital and reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity.

(a) Dividends

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB	**RMB**	**RMB**
Final dividend proposed after the balance sheet date of HK5.86 cents (RMB5.16 cents) per ordinary share (2008: Nil; 2007: Nil)	—	—	157,911,060

On 12 April 2010, the directors proposed a final dividend of HK5.86 cents (RMB5.16 cents) per share totalling RMB157,911,060 to the equity shareholders of the Company for the shareholders' approval at the forthcoming annual general meeting.

The dividends will be distributed from the share premium of the Company.

The final dividend resolved and proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Authorised and issued share capital

For the purpose of these financial statements, share capital at 31 December 2007, 2008 and 2009 represents the aggregate of the share capital of the companies comprising the Group. The movement of share capital in 2007 and 2008 represent elimination as a result of the Reorganisation. The shares issued in 2008 and 2009 represent issue of Company's new shares to its investors which details are stated in below.

	At 31 December					
	2007		2008		2009	
	No. of Shares	**Amount**	**No. of shares**	**Amount**	**No. of shares**	**Amount**
Authorised:						
Beijing Zhaolin Forestry Development Co., Ltd.	N/A	RMB10,000,000	—	—	—	—
China Zhaoneng Group Limited.	—	—	—	—	—	—
China Forestry Holdings Co., Ltd.	5,000,000	US$50,000	100,000,000,000	US$100,000,000	100,000,000,000	US$100,000,000
Ordinary shares issued:						
Beijing Zhaolin Forestry Development Co., Ltd.						
- fully paid	N/A	RMB10,000,000	—	—	—	—
China Forestry Holdings Co., Ltd.						
- not fully paid	1	US$0.01	28,500,000	US$28,500	—	—
- fully paid	—	—	3,500,000	US$3,500	3,060,452,000	US$3,060,452

Movement of paid-in capital of Predecessor Entity:

	Number of shares	**Amount**
	'000	**RMB'000**
Paid-in capital in the Predecessor Entity		
As at 1 January 2007 and 31 December 2007 (note 26)	N/A	10,000
As at 1 January 2008	N/A	10,000
Payment to shareholder upon Reorganisation (note 26)	N/A	(10,000)
As at 31 December 2008	—	—

Movement of authorised and issued shares of China Forestry Holdings Co., Ltd.:

	Number of shares	Amount
	'000	**US$'000**
Authorised:		
As at 1 January 2007	—	—
Shares of US$0.01 each authorised as a result of the Reorganisation (note (i))	5,000	50
Shares of US$0.01 each at 31 December 2007	5,000	50
Shares of US$0.01 each at 1 January 2008	5,000	50
Subdivision of share capital of US$0.01 each to US$0.001 each (note (i))	45,000	—
Increase of share capital (note (ii))	99,950,000	99,950
Shares of US$0.001 each at 31 December 2008 and 2009	100,000,000	100,000
Issued:		
As at 1 January 2007	—	—
Share of US$0.01 each issued as a result of Reorganisation (note (i))	—	—
Share of US$0.01 each at 31 December 2007	—	—
Share of US$0.01 each at 1 January 2008	—	—
Subdivision of share capital (note (i))	—	—
Shares issued (note (iii))	32,000	32
Shares of US$0.001 each at 31 December 2008	32,000	32
Shares of US$0.001 each at 1 January 2009	32,000	32
Issuance of new shares on Reorganisation (note (iii))	3,565	4
Capitalisation issue (note (iv))	2,214,435	2,214
Issuance of shares for placing and public offering (note (v))	810,452	810
Shares of US$0.001 each at 31 December 2009	3,060,452	3,060

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(i) The Company was incorporated on 21 December 2007 with an authorised share capital of US$50,000 divided into 5,000,000 ordinary shares of US$0.01 each. On the same day, one nil-paid subscriber's share of US$0.01 was allotted and issued to Kingfly Capital Limited ("Kingfly") at nil consideration. Pursuant to resolutions of the Board of Directors on 8 January 2008, every share of US$0.01 in the issued and unissued share capital of the Company was subdivided into 10 shares of US$0.001.

(ii) Pursuant to resolutions of the Board of Directors on 23 September 2008, the Company's authorised share capital was increased from US$50,000 to US$100,000,000 by the creation of an additional 99,950,000,000 ordinary shares of US$0.001 each, ranking pari passu with the existing ordinary shares of the Company in all aspects.

(iii) Pursuant to the Reorganisation, the Company allotted and issued, a total of 28,499,990 new shares to Kingfly, and 3,500,000 new shares to certain pre-IPO investors in 2008. A further 3,565,217 new shares were allotted and issued to certain pre-IPO investors in 2009.

(iv) On 5 November 2009, an amount of US$2,214,435 (equivalent to RMB15 million) standing to the credit of the share premium account was applied in paying up in full 2,214,434,783 shares of US$0.001 each. The shares were allotted and distributed as fully paid to the then shareholders of the Company in the proportion of their respective shareholdings.

(v) On 3 December 2009, 750,000,000 ordinary shares were issued and offered for subscription at an issue price of HKD2.07 per share upon the listing of the Company's shares on the Stock Exchange. On 24 December 2009, an additional 60,452,000 ordinary shares were issued and offered for subscription under the over-allotment option. The proceeds of RMB5.5 million (equivalent to US$810,452) representing the par value were credited to the Company's share capital. The remaining proceeds before share issuance expenses of RMB1,472 million were credited to the share premium account.

Listing expenses amounted to RMB129,003,294, of which RMB109,410,235 has been credited to the share premium account and RMB19,593,059 has been recognised in other operating expenses during the year ended 31 December 2009.

(c) Nature and purpose of reserves

(i) *Share premium*

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company. The application of the share premium account is governed by the Companies Law of the Cayman Islands. The share premium is distributable.

(ii) *Statutory surplus reserve*

The Group is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC (collectively the "PRC GAAP"), to the statutory surplus reserve until the balance reaches 50% of the registered capital.

Subject to the approval of shareholders, statutory surplus reserve may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before such capitalisation.

(iii) *Capital reserve*

Capital reserve represents the difference between the fair value of shares transferred and the present value of consideration payable for the equity-settled share-based transaction.

(iv) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(d).

(d) Distributable reserves

The aggregate amount of reserves available for distribution to equity shareholders of the Company, including the distributable amounts disclosed in note 18(c)(i) were nil, RMB239,108,360 and RMB1,842,555,023 as at 31 December 2007, 2008 and 2009 respectively.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

19 Commitments and contingent liabilities

(a) Capital commitments

At 31 December 2007, 2008 and 2009, the Group's capital commitments not provided for in the financial statements are as follows:

	31 December		
	2007	**2008**	**2009**
	RMB	**RMB**	**RMB**
Authorised and contracted for:			
- acquisition of forests	91,000,000	—	—
- acquisition of fixed assets	—	3,776,925	2,275,385
	91,000,000	3,776,925	2,275,385
Authorised but not contracted for:			
- acquisition of forests	532,000,000	—	1,400,000,000
- acquisition of fixed assets	—	32,001,270	32,001,270
- other projects	—	30,000,000	30,000,000
	532,000,000	62,001,270	1,462,001,270

(b) Future minimum lease payments under non-cancellable operating leases

At 31 December 2007, 2008 and 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December		
	2007	**2008**	**2009**
	RMB	**RMB**	**RMB**
Within 1 year	1,328,266	1,481,622	1,423,017
After 1 year but within 5 years	—	1,310,725	167,350
	1,328,266	2,792,347	1,590,367

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years, with no option to renew the leases. None of the leases includes contingent rentals.

(c) Contingent liabilities

Environmental contingencies

The Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment and wild life have generally become more stringent in recent years and could become more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group for violations whether or not caused or known by the Group. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors are not aware of any environmental liabilities as at 31 December 2007, 2008 and 2009.

Obligation to replant

The Group is obligated to replant at least 100% of the crops harvested. During the years ended 31 December 2007, 2008 and 2009, the saplings were provided by local forestry authorities free of charge. The Group is obligated to replant the tree crops even if the forestry authorities do not provide the saplings. In such case, there will be a potential cost incurred by the Group.

20 Material related party transactions

(a) Key management personnel remuneration

Remuneration of key management personnel of the Group is as follows:

	Year ended 31 December		
	2007	**2008**	**2009**
	RMB	**RMB**	**RMB**
Short-term employee benefits	1,052,650	2,992,500	5,544,124
Retirement benefits	105,822	109,416	98,902
Equity compensation benefits	—	88,556,933	—
	1,158,472	91,658,849	5,643,026

(b) Financing arrangements

	As at 31 December		
	2007	**2008**	**2009**
	RMB	**RMB**	**RMB**
Advances from directors (note)	—	6,319,976	328,315
Advance to a director (note)	—	—	1,012,279

Note: The advances from directors are unsecured, interest free and have no fixed repayment term, which are included in "Other payables" (note 16).

The advance to a director is unsecured, interest free and repayable on demand, which is included in "Other receivables" (note 14).

21 Financial risk management and fair values

(a) Financial risk management objectives and policies

Management has adopted certain policies on financial risk management with the objective of:

(i) ensuring that appropriate funding strategies are adopted to meet the Group's short term and long term funding requirements taking into consideration the cost of funding, gearing levels and cash flow projections of each project and that of the Group;

(ii) ensuring that appropriate strategies are also adopted to manage related interest and currency risk funding; and

(iii) ensuring that credit risks on sales to customers are properly managed.

The Group is also exposed to financial risks arising from changes in timber prices, which are constantly affected by both demand and supply cycles of the timber industry. As a result, the movements of the prices would have significant impact on the Group's earnings and valuation of plantation assets as well as cash flows and liquidity. Whilst efforts have been made to implement certain strategies, there can be no assurance that the Group will be fully shielded from negative effects resulting from cyclical movements of timber prices.

(b) Credit risk

The Group's credit risk is primarily attributable to sales. Most of the Group's customers are requested to pay in full before taking delivery of the timber logs. The credit risk of the Group is considered insignificant.

(c) Currency risk

The Group's operations and principal assets are all in the PRC. The revenue generated from sales of timber is all denominated in Renminbi for the years ended 31 December 2007, 2008 and 2009. The Group's exposure to currency risk is considered insignificant.

Some of the Group's assets and liabilities were denominated in foreign currencies. The currency give rise to this risk is primarily United States Dollars. The Group did not have hedging measure against currency risk arising from recognised assets and liabilities during the years ended 31 December 2007, 2008 and 2009.

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. Difference resulting from the translation of the financial statements of foreign operations into the Group's presentation currency is excluded.

The Group

Exposure to foreign currencies (expressed in RMB)

	At 31 December		
	2007	**2008**	**2009**
	US$	**US$**	**US$**
Other receivables	—	884,397	19,460
Cash and cash equivalents	—	58,086,629	505,777,776
Other payables	—	(52,544)	(52,495)
Overall net exposure	—	58,918,482	505,744,741

The following table indicates the approximate change in the Group's profit after tax (and retained earnings) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at 31 December 2007, 2008 and 2009. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

	At 31 December					
	2007		**2008**		**2009**	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	**Increase/ (decrease) in foreign exchange rates**	**Effect on profit after tax and retained profits**	**Increase/ (decrease) in foreign exchange rates**	**Effect on profit after tax and retained profits**
		RMB		**RMB**		**RMB**
US$.	5%	N/A	5%	2,945,924	5%	25,287,237
	(5)%	N/A	(5)%	(2,945,924)	(5)%	(25,287,237)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at 31 December 2007, 2008 and 2009 and had been applied to each of the Group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

(d) Interest rate risk

The Group has not borrowed any loans from banks or other parties. Furthermore, the Group has not invested in any interest bearing securities. Any excess cash and cash equivalents of the Group are deposited at bank to earn short-term market interest rates. The risk arising from unexpected adverse interest rate movements is considered insignificant.

(e) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at 31 December 2007, 2008 and 2009 of the Group's other payables, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

	At 31 December		
	2007	**2008**	**2009**
	RMB	**RMB**	**RMB**
Within 1 year	2,269,073	343,943,575	174,725,496
From 1 year to 2 years	—	367,020,000	—
Total contractual undiscounted cash flow	2,269,073	710,963,575	174,725,496
Balance sheet carrying amount	2,269,073	632,538,701	174,725,496

(f) Natural risk

The State Council of the PRC manages the country's harvesting activities by imposing annual logging quotas which are determined by application from the local forestry authorities. Other than the above-mentioned quotas, the Group's revenue also depends significantly on the ability to harvest wood at adequate levels. The ability to harvest wood and the growth of the trees in the forests may be affected by unfavourable local weather conditions and natural disasters. Weather conditions such as floods, droughts, cyclones and windstorms and natural disasters such as earthquakes, fire, disease, insect infestation and pests are examples of such events. The Group is insured to protect the forests against certain unfavourable local weather conditions and natural disasters.

However, the occurrence of severe weather conditions or natural disasters may diminish the supply of trees available for harvesting, or otherwise impede the Group's logging operations or the growth of the trees in the forests.

(g) Fair values

Cash and cash equivalents, other receivables, and other payables are carried at amounts not materially different from their fair values as at 31 December 2007, 2008 and 2009.

22 Non-adjusting post balance sheet event

(a) Acquisition of forests

Subsequent to 31 December 2009, the Group entered into several agreements to acquire forestry rights of parcels of land measuring a total of 68,666 hectares (equivalent to 1,030,000 mu) in aggregate situated at Yunnan Province and Guizhou Province, the PRC for a period of 30 to 65 years, as a consideration of RMB670 million. The Group has not completed the acquisitions as at the date of issue of these financial statements.

(b) Grant of share options

On 7 September 2010, the Group granted share options to subscribe for an aggregate of 42,750,000 ordinary shares of US$0.001 each in the share capital of the Company ("Shares") to certain eligible employees of the Company (the "Grantees"), subject to acceptance of the Grantees, under the share option scheme adopted by the Company on 5 November 2009. The share options will become vested in the coming three years till 7 September 2013.

23 Immediate and ultimate controlling party

At 31 December 2009, the directors consider the immediate parent and ultimate controlling party of the Group to be Kingfly, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

24 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at 31 December 2007, 2008 and 2009. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Fair value of plantation assets

The Group's plantation assets are valued at fair value less costs to sell. In determining the fair value of the plantation assets, the professional valuer has applied the net present value approach which requires a number of key assumptions and estimates to be made such as discount rate, log price, harvest profile, plantation costs, growth, harvesting and establishment. Any change in the estimates may affect the fair value of the plantation assets significantly. The professional valuer and management review the assumptions and estimates periodically to identify any significant change in the fair value of plantation assets.

(b) Useful lives of property, plant and equipment

The management determines the estimated useful lives of and related depreciation charges for its property, plant and equipment. This estimate is based on historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of significant technical innovations and competitor actions in response to industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Taxation

Determining tax provisions, including value added tax provision, involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account changes in tax legislations.

25 Particulars of subsidiaries

As at the 31 December 2009, the Company has direct and indirect interests in the following subsidiaries.

The Company's attributable equity interests in its subsidiaries have remained unchanged during the years ended 31 December 2007, 2008 and 2009.

Ultra Big Investment Limited, China Zhaoneng Group Limited and Fine Fit Limited, Kunming Ultra Big Forestry Resource Development Co., Ltd., and Chengdu Yishang Forestry Resource Development Co., Ltd. are held indirectly by the Company through intermediate investment holding companies.

The following are subsidiaries of the Company upon the completion of the Reorganisation:

Name of company	Place and date of incorporation/ establishment	Issued share capital	Attributable equity interest	Principal Activities
			%	
Profit Wise International Limited	British Virgin Islands, 7 November 2007	US$1	100	Investment holding
Sky Famous Limited	British Virgin Islands, 27 August 2007	US$1	100	Investment holding
Rich Fame International Limited	British Virgin Islands, 7 November 2007	US$1	100	Investment holding
Ultra Big Investment Limited	Hong Kong, 3 December 2007	HKD1	100	Investment holding
China Zhaoneng Group Limited	Hong Kong, 15 November 2006	HKD1	100	Investment holding
Fine Fit Limited	Hong Kong, 3 December 2007	HKD1	100	Investment holding
Kunming Ultra Big Forestry Resource Development Co., Ltd.	The PRC, 7 March 2008	US$22,000,000	100	Forest management and sale of timber logs
Chengdu Yishang Forestry Resource Development Co., Ltd.	The PRC, 21 March 2008	US$10,000,000	100	Forest management and sale of timber logs

26 Particulars of predecessor entity

For the purpose of issue of these financial statements, the results of operations of timber and forestry related businesses of the Predecessor Entity for the period from January 2007 to March 2008 have been included in the Group's consolidated income statements, consolidated cash flow statements and consolidated statements of changes in equity for the years ended 31 December 2007, 2008 and 2009. The state of affairs of the Predecessor Entity as at 31 December 2007 has been included in the Group's consolidated balance sheet. The particulars of the Predecessor Entity are set out below:

Name of Predecessor Entity	Place and date of incorporation/ establishment	Issued share capital	Attributable equity interest	Principal activities
			%	
Beijing Zhaolin Forestry Development Co., Ltd.	The PRC, 6 August 2001	RMB10,000,000	100	Forest management and sale of timber logs

Prior to January 2007, the Companies Law in the PRC required all limited liability companies to have at least 2 shareholders. Consequently, the Chairman entered into arrangements to entrust other independent third parties to hold the equity interest in the Predecessor Entity on his behalf. In these arrangements, (i) the Chairman was the one responsible for providing the funding to the other shareholders when they acquired the equity interest in the Predecessor Entity; (ii) the other shareholders confirmed that they had always acted in accordance with the instructions of the Chairman when voting in any shareholders' meeting or passing any shareholders' resolutions of the Predecessor Entity; and (iii) any income had always belonged to the Chairman. Therefore, the Chairman in substance controlled all the equity interests in the Predecessor Entity prior to 5 August 2007. On 5 August 2007, the Chairman entered into agreement with the entrusted independent third party to transfer the shares back to the Chairman and the Chairman has been the sole shareholder of the Predecessor Entity since then.

On 7 March 2008, the Group set up a wholly-foreign owned enterprise, Kunming Ultra Big Forestry Resource Development Co., Ltd. in Yunnan, the PRC. On 19 March 2008 and 17 April 2008, Kunming Ultra Big Forestry Resource Development Co., Ltd. entered into a forestry right transfer agreement and a supplemental agreement respectively with Beijing Zhaolin Forestry Resources Development Co., Ltd. to which Beijing Zhaolin Forestry Resources Development Co., Ltd. transferred all its forestry rights in Sichuan to Kunming Ultra Big Forestry Resource Development Co., Ltd. at a consideration of RMB122,428,723 as agreed on a negotiation basis and by reference to a valuation report prepared by an independent PRC valuer using current price method. The consideration has been settled in May 2008.

After the transfer of the timber and forestry related businesses with relevant assets and liabilities to the companies comprising the Group, the Predecessor Entity has been dissolved on 4 September 2008. The assets (including the retained earnings) of the Predecessor Entity are required to be distributed to such entitled persons (including its creditors and shareholder) and in such priority as prescribed under the PRC law. Given that the Group is not a creditor of a shareholder of the Predecessor Entity, it is not entitled to receive any assets of the Predecessor Entity from such distribution. The distribution of Predecessor Entity's assets with amount of RMB173,373,991 has been completed on 20 September 2008.

27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issue of these financial statements, the IASB has issued the following new standard which is not yet effective for the year ended 31 December 2009 and which has not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Improvements to IFRSs 2009	1 July 2009

The Group is in the process of making an assessment of what the impact of this standard is expected to be in the period of initial application. So far it has concluded that the adoption of Improvements to IFRSs 2009 is unlikely to have a significant impact on the Group's result of operations and financial position.

KPMG

Review report to the board of directors of China Forestry Holdings Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages F-35 to F-49 which comprises the consolidated balance sheet of China Forestry Holdings Co., Ltd. as of 30 June 2010 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 August 2010

Consolidated Income Statement
for the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 RMB (Unaudited)	Six months ended 30 June 2009 RMB (Audited)
Turnover	4	494,257,281	373,247,913
Other operating income	5	568,197	489,381
Amortisation of insurance premium		(10,426,576)	(9,736,915)
Amortisation of lease prepayments		(3,861,236)	(3,861,236)
Auditor's remuneration		(774,620)	(43,000)
Changes in fair value of plantation assets less costs to sell	12		
- changes during the period		470,616,665	518,868,021
Consultancy fees		(2,062,108)	(3,715,494)
Depreciation		(2,214,218)	(129,629)
Loss on disposal of fixed assets		(29,286)	—
Foreign exchange gain		2,223,218	164,837
Operating expenses for logging activities		(131,512,000)	(95,346,650)
Other operating expenses		(11,235,158)	(6,723,880)
Rental expenses of properties		(1,200,564)	(943,550)
Reversal of fair value of plantation assets upon logging and sales of the plantation assets		(362,809,535)	(277,949,785)
Staff costs	7	(11,595,446)	(5,650,510)
Travelling expenses		(1,637,756)	(796,003)
Profit from operations		428,306,858	487,873,500
Financing income		987,878	176,309
Financing expenses		—	(55,979,169)
Net financing income/(costs)	6	987,878	(55,802,860)
Profit before taxation		429,294,736	432,070,640
Income tax	8	—	—
Profit for the period		429,294,736	432,070,640
Attributable to:			
Equity shareholders of the Company		429,294,736	432,070,640
Earnings per share	10		
Basic and diluted		0.14	0.19

The notes on pages F-40 to F-49 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company attributable to the profit for the period are set out in note 18.

Consolidated Statement of Comprehensive Income
for the six months ended 30 June 2010

	Note	Six months ended 30 June	
		2010	2009
		RMB	RMB
		(Unaudited)	(Audited)
Profit for the period		429,294,736	432,070,640
Other comprehensive income for the period	9(a)		
Exchange differences of translation of financial statements of subsidiaries incorporated outside the PRC		(3,646,749)	(1,778,500)
Available-for-sale securities:			
net movement in fair value reserve	9(b)	613,725	—
Total comprehensive income for the period		426,261,712	430,292,140
Attributable to:			
Equity shareholders of the Company		426,261,712	430,292,140

The notes on pages F-40 to F-49 form part of this interim financial report.

Consolidated Balance Sheet
at 30 June 2010

	Note	As at 30 June 2010	As at 31 December 2009
		RMB	RMB
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment, net	11	23,812,704	22,121,973
Lease prepayments		214,243,072	218,104,308
Plantation assets	12	7,875,000,000	7,767,000,000
Prepayment for forest acquisition	13	190,338,500	—
Total non-current assets		8,303,394,276	8,007,226,281
Current assets			
Inventories		130,017	—
Other receivables	14	54,927,634	55,321,994
Cash and cash equivalents	15	1,534,694,611	1,706,636,428
Other financial assets	16	179,996,014	—
Total current assets		1,769,748,276	1,761,958,422
Current liabilities			
Other payables	17	(210,332,693)	(174,725,496)
Total current liabilities		(210,332,693)	(174,725,496)
Net current assets		1,559,415,583	1,587,232,926
Total assets less current liabilities		9,862,809,859	9,594,459,207
Net assets		9,862,809,859	9,594,459,207
Capital and reserves			
Share capital		20,797,400	20,797,400
Reserves		9,842,012,459	9,573,661,807
Total equity attributable to equity shareholders of the Company		9,862,809,859	9,594,459,207

Approved and authorised for issue by the board of directors on 26 August 2010.

Li Kwok Cheong	**Li Han Chun**
Director	*Director*

The notes on pages F-40 to F-49 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2010

	Attributable to equity shareholders of the Company							
	Share capital	Share premium	Statutory surplus reserve	Capital reserve	Exchange reserve	Fair value reserve	Retained earnings	Total equity
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance at 1 January 2009	232,245	247,886,109	170,865,000	88,556,933	(273,221)	—	6,928,083,175	7,435,350,241
(Audited)								
Changes in equity for the six months ended 30 June 2009:								
Shares issued	24,361	280,120,409	—	—	—	—	—	280,144,770
Total comprehensive income for the period	—	—	—	—	(1,778,500)	—	432,070,640	430,292,140
Balance at 30 June 2009 and 1 July 2009	256,606	528,006,518	170,865,000	88,556,933	(2,051,721)	—	7,360,153,815	8,145,787,151
(Audited)								
Changes in equity for the six months ended 31 December 2009:								
Capitalisation issue	15,037,670	(15,037,670)	—	—	—	—	—	—
Issuance of shares for placing and public offering	5,503,124	1,472,301,084	—	—	—	—	—	1,477,804,208
Share issuing cost	—	(109,410,235)	—	—	—	—	—	(109,410,235)
Total comprehensive income for the period	—	—	—	—	718,310	—	79,559,773	80,278,083
Balance at 31 December 2009 and 1 January 2010	20,797,400	1,875,859,697	170,865,000	88,556,933	(1,333,411)	—	7,439,713,588	9,594,459,207
Balance at 1 January 2010	20,797,400	1,875,859,697	170,865,000	88,556,933	(1,333,411)	—	7,439,713,588	9,594,459,207
(Unaudited)								
Changes in equity for 2010:								
Dividend approved in respect of the previous year	—	(157,911,060)	—	—	—	—	—	(157,911,060)
Total comprehensive income for the period	—	—	—	—	(3,646,749)	613,725	429,294,736	426,261,712
Balance at 30 June 2010	20,797,400	1,717,948,637	170,865,000	88,556,933	(4,980,160)	613,725	7,869,008,324	9,862,809,859

The notes on pages F-40 to F-49 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement
for the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 RMB (Unaudited)	Six months ended 30 June 2009 RMB (Audited)
Cash generated from operations		362,283,138	284,887,561
Tax paid		—	—
Net cash generated from operating activities		362,283,138	284,887,561
Net cash used in investing activities		(376,313,895)	(287,586,028)
Net cash (used in)/generated from financing activities		(157,911,060)	280,144,770
Net (decrease)/increase in cash and cash equivalents		(171,941,817)	277,446,303
Cash and cash equivalents at 1 January 2010/2009	15	1,706,636,428	104,530,763
Cash and cash equivalents at 30 June 2010/2009	15	1,534,694,611	381,977,066

The notes on pages F-40 to F-49 form part of this interim financial report.

Notes to the Interim Financial Report

for the six months ended 30 June 2010

1 GENERAL INFORMATION

China Forestry Holdings Co., Ltd. (the "Company") was incorporated in the Cayman Islands on 21 December 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong ("Stock Exchange") on 3 December 2009.

The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2010 comprises the Company and its subsidiaries (collectively referred to as the "Group").

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standard Board ("IASB"). It was authorised for issue on 26 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on pages F-34.

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 April 2010.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations - plan to sell the controlling interest in a subsidiary*

- Improvements to IFRSs (2009)

- IFRIC 17, *Distributions of non-cash assets to owners*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons.

- The impact of the majority of the revisions to IFRS 3, IAS 27, IFRS 5 and IFRIC 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policies are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

    - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

    - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

    - Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

    - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

    - In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

  - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

  - Any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- IFRIC 17 requires distributions of non-cash assets to owners to be measured as the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. Previously the Group measured such distributions at the carrying value of the assets distributed. In accordance with the transitional provisions in IFRIC 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

- As a result of the amendment to IAS 17, Leases, arising from the "*Improvements to IFRSs (2009)*" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such lease as operating leases continues to be appropriate.

4 TURNOVER AND SEGMENT INFORMATION

The principal activities of the Group are the management of forests and sale of timber logs in the PRC.

Turnover represents the sales value of goods supplied to customers less value added tax, returns and trade discounts. The applicable value added tax rate for the Group is 13% according to Cai Shui [1994] No. 4 issued by the Ministry of Finance and the State Administration of Taxation of the PRC.

The directors consider that the Group operates in a single business and geographical segment as the revenue and profit are derived entirely from the sales of timber logs in the PRC. Accordingly, no segmental analysis has been presented.

5 OTHER OPERATING INCOME

	Six months ended 30 June	
	2010	2009
	RMB (Unaudited)	RMB (Audited)
Government grants	192,870	489,381
Other trading income	282,600	—
Others	92,727	—
	568,197	489,381

A subsidiary, Kunming Ultra Big Forestry Resource Development Co., Ltd ("Kunming Ultra Big"), received unconditional government grants in the form of free saplings from Sichuan and Yunnan Forestry Bureau. Government grants were recognised as other operating income in profit or loss when they become receivable.

6 NET FINANCING INCOME/(COSTS)

	Six months ended 30 June	
	2010	2009
	RMB (Unaudited)	RMB (Audited)
Interest income earned from deposits with banks	987,878	176,309
Interest paid on payable for forest acquisition	—	(55,979,169)
	987,878	(55,802,860)

7 STAFF COSTS

	Six months ended 30 June	
	2010	2009
	RMB (Unaudited)	RMB (Audited)
Salaries, wages and other benefits	10,619,409	4,862,583
Contributions to defined contribution retirement schemes	976,037	787,927
	11,595,446	5,650,510

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement schemes ("the Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at a rate of 20% (2009: 20%) of the standard wages determined by the relevant authorities during the six months ended 30 June 2010. Contributions to the Schemes vest immediately.

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the Group and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF scheme vest immediately.

Save for the above schemes, the Group has no other material obligation for the payment of retirement benefits beyond the contributions described above.

8 INCOME TAX

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(b) No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the six months ended 30 June 2010 and 2009.

(c) Pursuant to section 27 of the Corporate Income Tax Law of the PRC ("PRC tax law") and section 86 of the Implementation Regulations of the PRC tax law, the entity's income derived from forestry business is exempt from income tax.

Under the PRC tax law, the Corporate Income Tax rate of the PRC was 25% for the six months ended 30 June 2010 (six months ended 30 June 2009: 25%).

Under the PRC tax law, from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempt from the above-mentioned withholding tax. Dividends receivable by the Group from its PRC subsidiaries in respect of its profits earned since 1 January 2008 are subject to the above-mentioned withholding tax. Accordingly, deferred tax would be recognised for undistributed retained earnings of the PRC subsidiaries to the extent that the earnings would be distributed in the foreseeable future. The aggregate amounts of temporary differences associated with undistributed retained earnings and the related deferred tax liabilities which were not recognised because distribution of earnings was not expected in the foreseeable future amounted to RMB7,994,548,775 and RMB399,727,439 respectively as at 30 June 2010 (the year ended 31 December 2009: RMB7,559,680,090 and RMB377,984,005 respectively).

9 OTHER COMPREHENSIVE INCOME

(a) The components of other comprehensive income do not have any significant tax effect for the six months ended 30 June 2010 and 2009.

(b) Available-for-sale securities

	Six months ended 30 June	
	2010	**2009**
	RMB (Unaudited)	**RMB (Audited)**
Changes in fair value recognised during the period	613,725	—
Net movement in the fair value reserve during the period recognised in other comprehensive income	613,725	—

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to equity shareholders of the Company of RMB429,294,736 (six months ended 30 June 2009: RMB432,070,640) and 3,060,452,000 ordinary shares (six months ended 30 June 2009: 2,250,000,000 ordinary shares, after adjusting for the capitalisation issue in November 2009) in issue during the interim period.

There were no potential dilutive ordinary shares during the six months ended 30 June 2009 and 2010. Therefore, the diluted earnings per share is the same as the basic earnings per share.

11 PROPERTY, PLANT AND EQUIPMENT, NET

During the six months ended 30 June 2010, the Group acquired fixed assets with an aggregate cost of RMB3,968,961 (six months ended 30 June 2009: RMB1,970,047). Items of fixed assets with a net book value of RMB64,012 were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: Nil), resulting in a loss on disposal of RMB29,286 (six months ended 30 June 2009: Nil).

12 PLANTATION ASSETS

	As at 30 June 2010	As at 31 December 2009
	RMB	RMB
	(Unaudited)	(Audited)
At 1 January 2010/2009	7,767,000,000	7,693,000,000
Additions (note (a))	192,870	655,897
Harvested timber transferred to inventories	(362,809,535)	(607,994,691)
Changes in fair value less costs to sell (note (b))	470,616,665	681,338,794
At 30 June 2010/31 December 2009	7,875,000,000	7,767,000,000

At 30 June 2010, plantation assets represent standing timber acquired, planted and managed by the Group and comprise approximately 171,780 hectares of tree plantations (31 December 2009: 171,780 hectares) which range from 20 to 24 years old. During the six months ended 30 June 2010, the Group harvested approximately 349,100 cubic meters of wood (six months ended 30 June 2009: 356,730 cubic meters), which had a fair value less costs to sell of RMB362,809,535 at the date of harvest (six months ended 30 June 2009: RMB277,949,785).

(a) Additions

During the six months ended 30 June 2010, the Group planted tree saplings with a value of RMB192,870 (six months ended 30 June 2009: RMB489,249). No new forests were acquired during the six months ended 30 June 2010.

(b) Changes in fair value less costs to sell

The changes in fair value less costs to sell during the period/year represent the aggregate of the difference between the value of the existing plantation assets as of the beginning and end of the financial period/year and the difference between the value of the new plantation assets as of the second day of acquisition and end of the financial period/year.

The Group's plantation assets in the PRC were independently valued by Chandler Fraser Keating Limited ("CFK"). CFK is a privately owned specialist forest consulting firm headquartered in New Zealand. In view of the non-availability of market value for trees in the PRC, CFK has applied the net present value approach whereby projected future net cash flows, based on its assessment of current timber log prices, were discounted at the rates of 9% to 13% (2009: 9% to 13%) for plantation assets for the period and applied to pre-tax cash flows to provide a current market value of the plantation assets.

The principal valuation methodology and assumptions adopted are as follows:

- Stands are scheduled to be harvested at or near their optimum economic rotation age;
- The cash flows are those arising from the current rotation of trees only. No account was taken of revenues or costs from re-establishment following harvest, or of land not yet planted;
- The cash flows do not take into account income tax and finance costs;
- The cash flows have been prepared in real terms and have not therefore included inflationary effects;

- The impact of any planned future activity of the business that may impact the pricing of the logs harvested from the forest is not taken into account; and

- Costs are current average costs. No allowance has been made for cost improvements in future operations.

13 PREPAYMENT FOR FOREST ACQUISITION

On 16 March 2010, the Group entered into a memorandum of intent to acquire a forest in Guizhou Province, the PRC and RMB190,338,500 was paid by the Group as a deposit.

14 OTHER RECEIVABLES

	As at 30 June 2010	As at 31 December 2009
	RMB (Unaudited)	RMB (Audited)
Other receivables	4,038,448	1,800,767
Prepaid insurance premium	13,176,261	17,479,682
Other prepayments and deposits	37,712,925	36,041,545
	54,927,634	55,321,994

The Group enters into a number of insurance policies for its plantation assets and these policies typically run for a period of 1 year to 4 years. The amount of the Group's prepaid insurance premium expected to be expensed after more than one year is RMB1,793,789 (31 December 2009: RMB3,637,953). The prepaid insurance premium is amortised on a systematic basis over the insurance term. Except for the above, all of other receivables are expected to be recovered or recognised as expense within one year.

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	As at 30 June 2010	As at 31 December 2009
	RMB (Unaudited)	RMB (Audited)
Cash at bank and in hand	1,534,694,611	1,706,636,428

The Group's cash and cash equivalents include cash at bank and in hand of RMB1,047,673,733 which were held in the PRC as at 30 June 2010 (31 December 2009: RMB376,123,689). The conversion of RMB denominated balance into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

16 OTHER FINANCIAL ASSETS

	As at 30 June 2010	As at 31 December 2009
	RMB	RMB
	(Unaudited)	(Audited)
Available-for-sale securities		
- Unlisted	111,553,916	—
- Listed in Hong Kong	68,442,098	—
	179,996,014	—

At 30 June 2010, none of the Group's available-for-sale securities were individually determined to be impaired.

17 OTHER PAYABLES

	As at 30 June 2010	As at 31 December 2009
	RMB	RMB
	(Unaudited)	(Audited)
Other payables and accrued expenses	210,014,648	174,497,904
Payable to the Director	318,045	227,592
	210,332,693	174,725,496

Other payables and accrued expenses include salary and staff welfare payables, VAT payables and other miscellaneous payables.

The Group obtained a non-binding credit facility of not more than RMB1,000 million from Shenzhen Development Bank. Drawdown of the facility is subject to the bank's assessment and approval. The facility is valid during the period from September 2008 to September 2011. Up to the balance sheet date, the Group has not drawn down any loans on the facility.

18 DIVIDENDS

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2010	2009
	RMB	RMB
	(Unaudited)	(Audited)
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$5.86 cents (RMB5.16 cents) per ordinary share (six months ended 30 June 2009: Nil)	157,911,060	—

19 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments outstanding as at 30 June 2010 not provided for in the interim financial report are as follows:

	As at 30 June 2010	As at 31 December 2009
	RMB (Unaudited)	RMB (Audited)
Authorised and contracted for:		
- acquisition of forests	464,000,000	—
- acquisition of fixed assets	2,275,385	2,275,385
	466,275,385	2,275,385
Authorised but not contracted for:		
- acquisition of forests	3,764,296,500	1,400,000,000
- acquisition of fixed assets	—	32,001,270
- other projects	6,000,000	30,000,000
	3,770,296,500	1,462,001,270
Total capital commitments	4,236,571,885	1,464,276,655

(b) As at 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payables as follows:

	As at 30 June 2010	As at 31 December 2009
	RMB (Unaudited)	RMB (Audited)
Within 1 year	2,868,971	1,423,017
After 1 year but within 5 years	1,948,739	167,350
	4,817,710	1,590,367

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to eight years (31 December 2009: one to three years), with no option to renew the leases. None of the leases includes contingent rentals.

(c) ***Contingent liabilities***

Environmental contingencies

The Group's operations are regulated by various laws and regulations. Laws and regulations protecting the environment and wild life have generally become more stringent in recent years and could become more stringent in the future. Some of these laws and regulations could impose significant costs, expenses, penalties and liabilities on the Group for violations whether or not caused or known by the Group. The financial position of the Group may be adversely affected by any environmental liabilities which may be imposed under such new environmental laws and regulations. The directors are not aware of any environmental liabilities as at 30 June 2010 and 31 December 2009.

Obligation to replant

The Group is obligated to replant at least 100% of the crops harvested. During the six months ended 30 June 2010 and the year ended 31 December 2009, the saplings were provided by local forestry authorities free of charge. The Group is obligated to replant the tree crops even if the forestry authorities do not provide the saplings. In such case, there will be a potential cost incurred by the Group.

20 MATERIAL RELATED PARTY TRANSACTIONS

(a) *Key management personnel remuneration*

Remuneration for key management personnel of the Group are as follows:

	Six months ended 30 June	
	2010	**2009**
	RMB	**RMB**
	(Unaudited)	**(Audited)**
Short-term employee benefits	6,203,970	1,398,395
Post-employment benefits	52,621	55,150
	6,256,591	1,453,545

(b) *Financing arrangements*

	Note	**As at 30 June 2010**	**As at 31 December 2009**
		RMB	**RMB**
		(Unaudited)	**(Audited)**
Advances from directors	(i)	318,045	328,315
Advance to a director	(ii)	1,457,670	1,012,279

Notes:

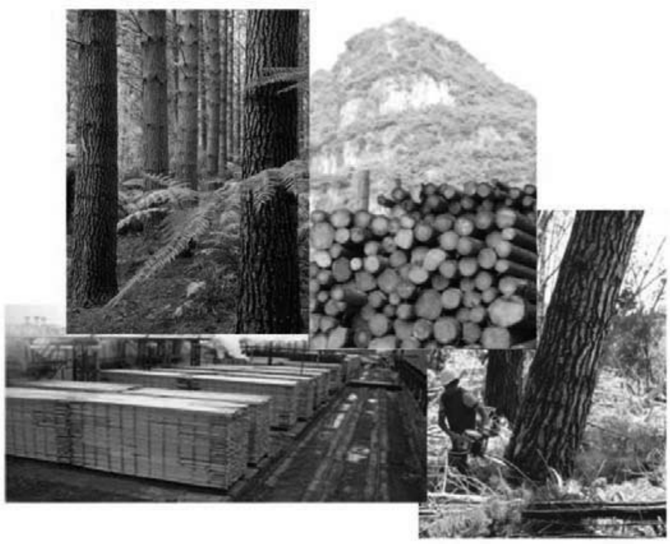
(i) *The advances from directors are unsecured, interest free and have no fixed repayment term.*

(ii) *The advance to a director is unsecured, interest free and repayable on demand.*

APPENDIX A

China Forestry Holdings Co., Ltd

Independent Technical Report



Chandler Fraser Keating Limited
FOREST INDUSTRY CONSULTANTS

Annex A to Appendix A Introduction to the technical report

Chandler Fraser Keating Limited (CFK) has been approached by China Forestry Holdings Co., Ltd. (The Company, it and its subsidiaries are collectively called "The Group") to provide an Independent Technical Review of the forest industry in the People's Republic of China.

CFK understands that The Company intends to include excerpts ofthes Independent Technical Report (ITR) in the prospectus to be issued by The Company in conjunction with its proposed bond offering.

This report presents CFK's analysis of the timber industry in the People's Republic of China. It also details the assumptions and valuation methodology used by CFK when valuing the Company's forests.

Forward-Looking statements

All statements in the review that are not statements of historical fact, such as estimates of current and future development of the forest industry, constitute forward looking statements. These forward looking statements and other matters discussed in the ITR that are not historical fact are only CFK's projections of future performance and this may differ from the actual performance. Nothing in this report is, or should be relied upon as a promise by CFK that the actual future performance will result. Factors that could impact performance that could cause actual results or performance to differ from the ITR include, but are not limited to, those factors discussed in the ITR. Actual results may differ from the opinions contained in this report as anticipated events may not occur as expected and the variation may be significant.

Statement of interests

CFK was selected to undertake this review based upon our company's expertise in the forest industry. CFK has no historical relationship with and is independent of The Group and has no economic interest in any of the assets covered in this review. Our payment for this report is not contingent upon The Group's approval of our work.

The report contains input from a number of people within CFK and its production has been under the management of the undersigned to whom any questions should be referred in the first instance.

Chandler Fraser Keating Limited has no responsibility to update the report for events and circumstances occurring after the date of issue.

Annex B to Appendix A

Annex B to CFK's technical report sets out the valuation methodology and assumptions as used in CFK's valuation of China Forestry Holding Co., Ltd's forests for financial reporting purposes. It is not intended to be and should not be regarded as a full valuation report. The intention is to to merely set out the assumptions and where appropriate benchmark these assumptions with other publically available information.

ANNEX B TO APPENDIX A VALUATION METHODOLOGY

CFK has used a discounted cash flow methodology, which is by far, in CFK's view, the most common approach to forest valuation. The valuation is to conform to the International Accounting Standard 41 ("IAS 41") *Agriculture*. The standard defines fair value as "*the amount for which an asset could be exchanged, ora liability settled, between knowledgeable, willing parties in an arm's length transaction*" ("Fair Value"). The concept of Fair Value is the basic principle of the standard. If an active market exists for a biological asset the quoted price in that market is the appropriate basis for determining Fair Value of that asset. IAS 41 defines an active market as where the following conditions exist:

(a) the items traded within the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

In the situation where market-determined prices or values may not be available for a biological asset in its present condition, the standard (paragraph 20) provides for Fair Value to be determined as the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate in determining fair value. In applying this approach, IAS 41 requires exclusion of any cash flows for:

- Financing
- Taxation
- re-establishing biological assets after harvest

Entity valued

The standard recognises only the existing crop. That is, cash flows up to and including the harvest of the crop which exists as at the valuation date. Any liabilities or benefits — such as those arising from replanting obligations — beyond the harvest of the existing crop must be reported separately by the entity for inclusion in their accounts. The valuation period for each stand is therefore from the valuation date through to harvest age.

Present location and condition

IAS 41 requires assessment of Fair Value for the asset in its present location and condition, and specifically excludes increases in value from additional biological transformation and future activities. CFK adopted the following interpretation of '*additionalbiological transformation*' as '*biological enhancements that are unduly conjectural and havenot yet been demonstrated as part of routine management'*.

The International Accounting Standards Board Exposure Draft concurs with this approach and proposes to amend the perceived prohibition on recognition of 'additional biological transformation' when estimating Fair Value.

Discount rate

The standard is prescriptive in some aspects and less prescriptive in others. In particular, it does not provide guidance on how to select the appropriate discount rate (other than that it must be "*market-determined*"). It leaves it to the valuer to make its own decision in choosing and constructing this input. The discount rate chosen has a significant impact on value.

Log price

For CFK's valuation of the Group's forests, the log price used by CFK have been derived from the Group's sales records. The log prices used in the December 2009 and June 2010 valuations of the Group's forests are set out in Table B 1.

Table B 1 Valuation log prices

	Sichuan	Yunnan-Luxi	Yunnan-Wenshan	Yunnan-Ninglang
Chinese Fir	980	960	960	N/A
Birch	N/A	1860	N/A	
Beech	N/A	1450	N/A	
Yunnan Pine	N/A	960	N/A	985
High value	N/A	N/A	N/A	1600
Medium value	N/A	N/A	N/A	1000
Low value	N/A	N/A	N/A	985

B.1 **Discount rate**

As mentioned above, IAS 41 does not prescribe the methodology to be used to derive a discount rate to be used in determining the Fair Value, apart from stating that it must be *"market-determined"*. The discounted cash flow approach is used in the absence of an active market for forests.

Selection of the valuation discount rate is normally a two step process:

- Using a number of different methods by which the discount rate can be assessed
- Adjusting the derived discount rate for any specific non-quantifiable risks associated with the particular forest being valued

While each method has its particular strengths and weaknesses, some of the more commonly approaches used to derive the discount rate are set out as follows:

- Internal Rate of Return
- Rates used in other valuation
- Rates implied by transaction evidence
- Capital Asset Pricing Model (CAPM)

CFK derives the discount rate from analysis of market sales transactions, CAPM analysis and an assessment of the non quantifiable risk associated with the forest.

B.2 **Internal rate of return**

The Internal Rate of Return (IRR) is defined as the discount rate at which a project's discounted revenues equal the discounted costs. While a useful technique to compare the IRR of a number of different projects, it has a number of limitations as a valuation technique, as by definition, the net discounted revenues will be zero.

B.3 **Rates used in other valuations**

The discount rates employed by other valuers can provide a useful cross reference on the range of appropriate discount rates. However, these rates would be useful only if all the assumptions surrounding the valuation are known and understood. There are a number of publicly listed companies that own forests in the PRC. A summary of these rates are shown in Table B 2.

Table B 2 Discount rates used by other valuers for companies with forest investment in China

Company	Exchange on which shares are listed	Forest location	Valuation type	Valuation date	Currency	Discount rate
Oji Paper Co., Ltd (1).	Tokyo and Osaka	Guangdon, Guangxi	Non IAS 41 compliant	Not applicable	Not applicable	Not applicable
Sino Forest Corporation ("Sino Forest") (2) .	Toronto	Fujian, Guangdong, Guangxi, Hunan, Jiangxi, Yunnan	DCF (Uncertain whether IAS 41 compliant)	31 December 2009	USD	11.5%
Cathay Forest Products Corp. (3) .	Toronto	Guizhou, Hunan, Jiangxi, Henan, Shangdong, Jiangsu	DCF (Uncertain whether IAS 41 compliant)	31 December 2009	USD	11.5%
China Grand Forestry Resources Limited ("China Grand Forestry) (4)	Hong Kong	Yunnan	IAS 41 DCF	31 December 2009	HKD	11.5%
China Timber Resources Group Limited (5).	Hong Kong	Guangdon	IAS 41 standing value method	31 March 2010	HKD	Not applicable

Sources:

1. Oji Paper Co., Ltd website; Summary of consolidated Financial and Business results for the year ended 31 March 2009.
2. Sino Forest 2008 Annual Report and Sino Forest Valuation as at 31 December 2009 prepared by Poyry for the existing crop only.
3. Cathay Forest Products Corp website. And Cathay Forest Products Corp. Annual Report 2009.
4. China Grand Forestry website and Annual Report 2009.
5. China Timber Resources Group Annual Report 2009.

B.4 **Forest investment in China**

Since the valuations of Oji Paper Co., Ltd and China Timber Resources Group Limited are not based on discounted cash flow method, they are not able to provide any cross reference on the discount rate. Based upon the information available, CFK cannot say with certainty that the valuations for Sino Forest and Cathay Forest Products Corp are IAS 41 compliant. Their valuations are generally similar to valuations that would be produced under IAS 41, in that they have been developed using the discounted future cash flows. Accordingly, the aforesaid valuations are considered relevant, even though they may not necessarily be IAS 41 compliant. As such, the only three comparable valuations that are useful to provide a useful cross reference on the range of appropriate discount rates for discount cash flow model (regardless whether they are IAS 41 compliant or not) are those relating to Sino Forest, Cathay Forest and China Grand Forestry.

The most significant difference between an IAS-compliant valuation and an IAS-noncompliant valuation would be that, an IAS 41 valuation is concerned only with the existing crop and excludes the costs and returns from replanting following harvest. Where discount rates are being compared between valuations, it is essential to consider the methodology employed, not whether the valuation complies with the relevant accounting standards, which vary from country to country and do not prescribe a discount rate.

The rate used by other forest valuers (Poyry) for comparable companies is 11.5%. It is noted that the discount rate of 11.5% has remained unchanged since 2005 for Sino forest and China Grand Forest Resources Limited despite a decrease in transactional evidence as discussed below. The discount rate used for Cathay forest Products increased from 10% to 11.5% in September 2009. This implies an increasing risk for forests located in the PRC compared with the transactional evidence. However, in CFK's view this is unlikely to be the case into the future. A number of listed companies have owned forests in the PRC for a number of years and their forest area has increased year on year. In addition there is increased international interest in PRC forest investments this will increase the understanding and transparency of forest transactions over time.

The longer that a forest owner owns the forest, the probability of gathering a higher level of knowledge of the forest estate would increase, in practical terms the projections of future markets costs, growth and yield of the forest will become more reliable. This increased reliability and understanding will serve to reduce the risk profile. Nevertheless, CFK has retained the same risk profile for the Group's Sichuan forest in valuing the Group's Sichuan forests the first of which was acquired in 2005, although most of the forests in Sichuan were acquired by the Group during the second half of 2007. CFK has also maintained the same discount rates in valuing the Group's forests as at December 2009 and June 2010 as the Group has not commenced harvesting in Wenshan and has less than two years experience in harvesting the Luxi forest estate.

Transactional evidence

To establish a PRC based transactional evidence, it would require access to and participation in direct negotiation, understanding the relationships and local knowledge specific to each transaction and company — such sale process is often not transparent to third parties. Such transactional evidence would also factor in the relationship, bargaining power and local knowledge of the buyer which may be different from one buyer to another.

There have been some "open market sales" of forests within the PRC (which were sold through advertisement and therefore everyone had an equal opportunity to purchase them), but they have involved small areas of forest. They are not considered to be representative of the forests that the Group owns because they are much smaller than the Group's forests. Therefore, these sales can be considered to be in a different market than the market that would exist for the Group's forests should they come on the market.

CFK noticed that in November 2007, China Grand Forestry acquired 47,467 hectares of forest in Yunnan which was valued by Poyry using a discount rate of 11.5%. This sale cannot be regarded as an open market sale, as it was conducted by direct negotiation and was not made through an open and competitive process. In the same way the recent transactions made by the Group cannot be considered as open market sales.

Saved for the above, most of the transactions to date have been through acquisition of smaller individual forest tracts by direct negotiation with local villagers or government agencies, and hence, there are no "open market" forest transactions in the PRC. These transactions are not conducted in a fair open market and are not regarded as open market transactions under the standard. Therefore, the use of the PRC transactional evidence is not representative in the selection of a discount rate, and there are significant barriers to entry for firms wishing to execute such transactions. Some examples of these barriers to entry are:

- Industry knowledge and expertise. Forests, as compared to other crops, have a long growth cycle. Understanding this cycle and the associated log markets and the existing forest ownership structure is the key to being able to identify forests that have hidden value

- Connection with forestry administration bureaus. China's decentralised forest administration system increases the importance of connections within the various levels of forestry administration bureaus. Often these relationships can mean the difference between being able to purchase a forest or not

- Access to funding. Forestry is a relatively capital intensive business, requiring significant upfront expenditure with harvesting often to be taken place in several years in the future

Once this first phase of forest acquisition has been completed, the market is likely to become more mature and there will be secondary sales of large industrial scale forests. The absence of open market sales rules out the use of PRC based transactional evidence to select the discount rate.

In recent years, the most active markets for forest sales have been in the Northern Hemisphere and the Southern Hemisphere. These sales can be considered to be open market sales, in that they are generally advertised and have a number of competing buyers and while they cannot be directly translated, they do provide a guide to expected returns and in particular and change in the expected return over time.

The transactional evidence from both the Northern Hemisphere and Southern Hemisphere transactions is not used directly to determine the discount rate. It is important to note that a number of investment organisations are involved in both the Northern Hemisphere and Southern Hemisphere markets. In this way, both markets could be regarded as a surrogate for a global market. Between the Northern Hemisphere and Southern Hemisphere transactions, there are a multitude of differing regulations and country risk. The key point from the transactional analysis is that discount rate in both markets behaves in a similar manner.

There are a number of differences between the Southern Hemisphere transactions and Northern Hemisphere ones. The followings are the major factors that could contribute to the differences:

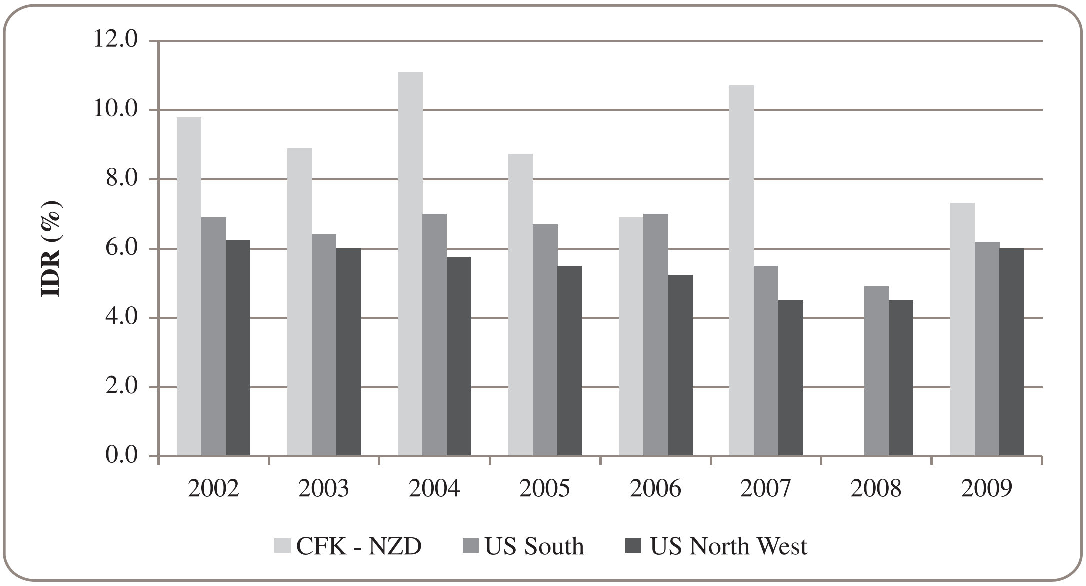
- Different number of transactions: Southern Hemisphere had 16 sales between 2002 and 2007. The Northern Hemisphere database includes over 200 transactions conducted between 2002 to 2009

- A large number of the Northern Hemisphere transactions represented one vendor (namely, International Paper)

- Currency Risk: CFK's analysis has shown that if the analysis is undertaken in USD instead of the home country currency, their discount rates are at the similar levels as those of the Northern Hemisphere transactions. CFK considers that most of the differences appears to be in currency risk. Besides these major factors, there are other factors which also contribute the differences between the implied discount rates ("IDRs") derived from the Southern Hemisphere and Northern Hemisphere transactions

Figure B 1 below shows the comparison of IDR of Southern and Northern Hemisphere transactions.

FIGURE B 1 NORTHERN AND SOUTHERN HEMISPHERE IDR



Notes:

1. CFK-NZD refers to Southern Hemisphere transactions in home currencies.
2. CFK-USD refers to Southern Hemisphere transactions translated to US dollar.
3. US South and US North West North American transactions (dominated in US dollar) valued by two forestry valuers.

Southern Hemisphere sales

Since 1990, CFK has analysed all southern hemisphere plantation forest sales for which analytical data are available to CFK. The sale details and the derived implied discount rates are maintained in a database. The IDR is the discount rate at which the net present value of the projected net cash flow equates to the transaction price. They are based on real and pre-tax cash flows.

The database contains 50 separate sales covering both state and private forests ranging in size from 48 ha to 186,000 ha. The total area of forest involved is 1,584,000 ha with an historic transaction value of NZD8.6 billion (value of the tree crop excluding freehold land).

In recent years, CFK has used the IDRs for sales since 1997 as a guide for establishing forest valuation discount rates. The Asian down-turn in that year saw a significant upwards shift in investor earnings expectations, as evidenced by the implied discount rates. Since that time there have been 31 sales.

Southern Hemisphere Implied discount rates during the 1989 to 2007 period range from 5.3% to 13.5% with a median of 10.0%.

The most recent (six) sales of large estates — occurring in 2005 and 2006 — are at or towards the lower end of the IDR range. They have the following features:

- The areas range from 18,000 ha to 184,000 ha

- The range of IDRs is from 5.3% to 8.4%
- A median IDR 7.1%
- A mean IDR 7.3%

CFK has observed a number of consecutive sales with uniformly low IDRs in comparison with all other sales.

Northern Hemisphere sales

From 2006 to 2009, the Northern Hemisphere sales generally have:

- a lower return than the Southern Hemisphere sales
- show a decline in IDR from early 2006
- show that sales in late 2007 early 2008 are consistent with the lower discount rates observed in 2006 and early 2007
- show that sales during 2009 in the US North West, and US South are above the sales observed in 2007 and 2008. The rates are still below those observed in 2006

The Northern Hemisphere period implied discount rates during the 2006 to 2009 range from 4.5% to 6.3% with a median of 6.0%.

The more recent Southern Hemisphere transactions show a wider range than those observed in the Northern Hemisphere. There is also a small difference in the median ID between the two data sets.

During the last three years there has been increased demand for good quality timberland in both Northern Hemisphere and for Southern Hemisphere plantations. Buyer interest has been from private pension funds, state pension funds, private equity, and forest-owning corporates. These groups are all beginning to look at forest investments outside the traditional regions. CFK is aware of forest sales in Africa to institutional buyers and at least on investment fund is actively pursuing forest acquisitions in the PRC. However, CFK does not rely on the post-1997 sales as a basis for setting the discount rate. In fact, it relies on the post-2005 sales, and the sales from 1997 to the present date are included for information and to illustrate that there has recently been a downward shift in discount rate.

CFK is aware of anecdotal evidence from some existing timberland investors in the United States that their expectation of return has increased as a result of the financial situation, and there are two reasons for this: they see a number of alternative investment opportunities with the right down in various other asset classes; and future purchases will not carry any debt or lower levels of debt than previously. This would appear to be supported by the North American transaction evidence, but not by the Southern Hemisphere data. On the other hand some sellers of forests appear to have the contrary view. In other situations (although the current situation is unparallel in its depth and scale) where stock market values have declined, forests have been seen as a relatively safe haven, due to relatively stable forest values. The fact is that forests have provided an inflation hedge in the past, and there is an option value in that the trees will keep growing if harvest is delayed due to the short-term falls in market demand. Conversely harvest can be increased in times where demand increases. It is this option value that differentiates forests from other investments. There is no transactional evidence to indicate that a change in discount rate is warranted.

Capital asset pricing model

The CAPM is a tool commonly used by financial analysts and valuers to estimate the cost of equity capital. The discount rate is based on observed market parameters, and applied to an individual firm. The CAPM approach requires assessment of the risk-free rate, capital structure, equity beta, and risk premium for equity. For an IAS 41 compliant valuation, financing charges are excluded when preparing the asset valuation. As a result, the CAPM analysis is appropriate for an equity only valuation.

When calculating the cost of capital,

(i) the currency of the cash flows and the currency of the discount rate should be the same

(ii) the market risk premium and beta be estimated against a global market portfolio and not a local one

Given that the Group's forests are valued in RMB, a RMB based risk free rate and inflation rate should be used.

For the estimation of the equity Beta, its derivation is based on measuring the movement of listed stock prices. However, the observed Betas tend to be highly variable, even within a single industry, and therefore offer little assistance particularly where there are few listed stocks, as is the case with forestry where most of the listed stocks are either companies involved solely with manufacturing forest products or are vertically integrated forest products companies owning forests and manufacturing facilities. There are very few listed, pure forest owning companies on which to derive an accurate estimate of the sector's Beta.

CFK has utilised the standard version of the CAPM model adjusted for inflation. The CAPM model is:

$Re = \{[1+ (Rf + e * Mrp)]/ [1+ Ix]\} - 1$

Where:

Re = cost of equity capital

Rf = risk free interest rate

Mrp = market risk premium

e = the equity Beta

Ix = inflation

CFK has used the following inputs into the CAPM model:

Equity beta (βe):

There are very few pure play publicly listed forest owning companies. Most valuers then look at the performance of the vertically integrated forest owing companies and their nominal pre-tax equity Beta lies between 0.6 and 1.1. The betas were obtained from information obtained from Bloomberg and Price Waterhouse Coopers, and interpreted and analysed by CFK.

CFK obtains summarised data and does not have access to the individual companies. It is a significant weakness in the CAPM analysis for forest owning companies. The fact is that there are very few pure forest owning companies worldwide, and nearly all have some involvement in downstream processing or other activities such as trading or alternative structures such as Real Estate Investment Trusts (REIT) in the U.S. This situation has been exacerbated by the increasing trend to private ownership of forests dominated by the U.S. pension and endowment funds. This has reduced the number of integrated forest company worldwide. The only rational for including those companies is that, ultimately the fortunes of the forest are linked to the fortunes of the downstream companies in the medium to long term.

For this reason, CFK prefers to look at a range of asset betas rather than adopt a single beta. The calculation of the equity beta from integrated forest products companies, and in some cases, pulp and paper or other related building products companies, is normal practice amongst forest valuers who undertake CAPM analysis.

Market risk premium (Mrp):

Market risk premium corresponds to the premium of realised total equity returns over the long term, total risk free bond returns estimated over a long period. CFK uses an estimate of the market risk premium based on the international arithmetic average international equity risk premium of 5% contained in ABN Amro's 2006 Global Investment Yearbook. This estimate is based largely on time series from European and U.S. stock markets. Accordingly it should be adjusted to reflect the sovereign and market risk of the project. CFK has adopted the same approach as others and ranked countries according to their sovereign risk ratings and applied a multiplier based on that ranking. Timber in the Chinese forest will be sold almost entirely into the domestic market and with prices set domestically. Therefore, the revenue from sales of timber as well as costs to harvest and produce the timber are exposed to Chinese country risk. For a forest company in a developing market of China, the market risk premium multiplier has been set at 1.2 (please see below for more details of this multiplier). The market risk premium is therefore 6.0%.

CFK is of the view that although there is a need to align (where possible) the basis on which the various assumptions have been derived, the reality is that determination of both the equity beta and market risk premium will be dominated by non-Asia information. Therefore, the market risk premium applied for the Group's forests has been obtained using information from a number of sources and is not Asia/China-focused.

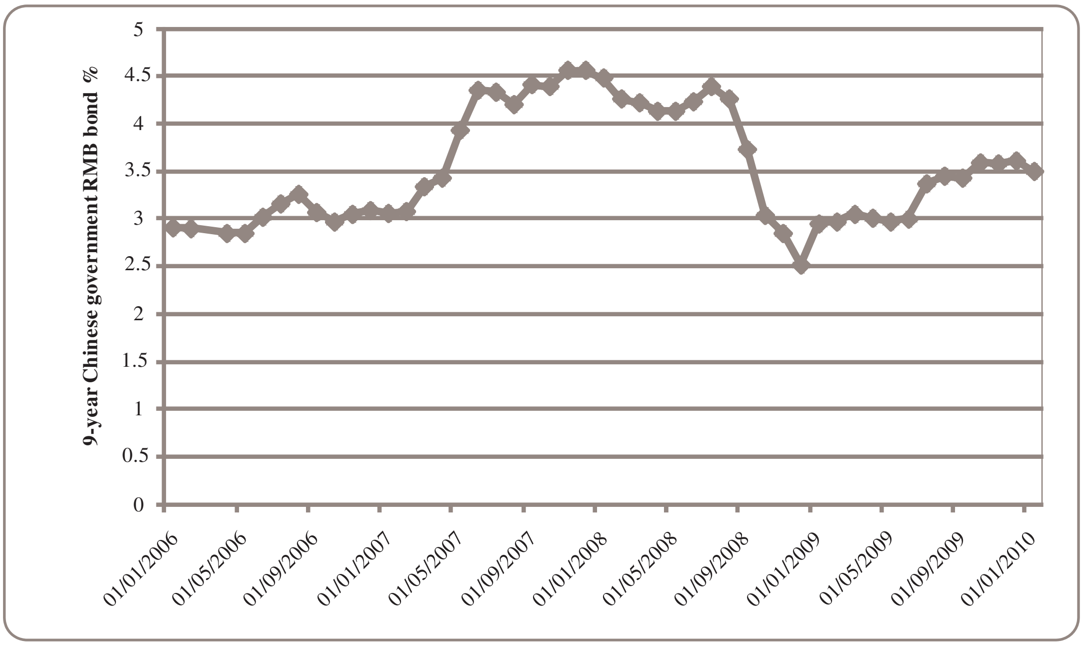
CFK following its own research and discussion with a number of forest investors, has concluded that it is more appropriate that both the market risk premium and beta are estimated using a global market portfolio, than to use a more localised approach. An additional advantage of a globalised approach is that long time series are available. CFK has made some allowance for the additional "risks" when determining the country risk multiplier. Furthermore, if one considers the market for forest products, a significant amount of forest products is traded internationally, either as raw material (e.g. logs) or partly processed products (e.g. pulp and timber) or finished products (e.g. paper and furniture), a large number of the forest products firms are global in nature. Similarly institutional investors which have significant investments in forests are increasingly global, with investments spanning a number of geographies.

CFK utilised a country attractiveness methodology originally developed by DANA/Manners in 1997, and now modified and adopted by RISI. The attractiveness index utilises assessments of (the index weightings are in brackets) policy consistency (11%), inflation (4%), economic climate (6%), deviation from purchasing power parity (4%), strength of the judicial system (11%), corruption (9%), foreign ownership provisions (7%), transport infrastructure (3%), local labour costs (3%), land tenure (13%), land availability (10%), market accessibility (10%), and biological and physical risk (9%). Each country was assigned a rating of 1 to 7 and an overall score was assigned for each country. This analysis was undertaken on 70 countries ranging from the United States to Zimbabwe. CFK based upon its experience broke the attractiveness rankings into five groups based upon their attractiveness scores. The first group had a risk multiplier of 1.0, the second 1.1, and the third 1.2. China at position 34 was in the third group, and so was assigned a multiplier of 1.2.

Risk free rate (Rf):

Risk free rate is calculated for the currency and inflation assumptions that underlie the cash flows of the operations. In this case it is the RMB. Accordingly, the risk free rate has been derived using the 9-year Chinese government bond. A 9-year bond was used because it was a readily available and more widely reported with lower volatility long term bond which can better reflect the long term nature of a forest investment than the shorter term bonds. Over the past two years, the yield to maturity of the 9-year Chinese government bond has been characterised by periods of relative stability followed by a rapid increase and then a further period of stability. Figure B 2 shows the last two years' yield to maturity of the 9-year Chinese government bond.

FIGURE B 2 YIELD TO MATURITY OF THE RMB BASED CHINESE 9-YEAR GOVERNMENT BOND



Source: Bloomberg

The application of the yield to maturity of the 9-year Chinese government bond over the last two years is more appropriate as an average yield to maturity over a longer historical series will incorporate a number of extraneous events such as re-rating of Chinese government bonds by rating agencies (occurred between 2005 and 2007). CFK looked at the history during 2007 when selecting the risk free rate, given the significant change that occurred in late 2006.

Based upon Figure B 2, there appears to have been a re-rating of the 9-year bond in June of 2007. CFK has used 4.5% as an estimate of the risk free rate.

Long term inflation (Ix):

Long term inflation has been set at 4.4% representing Consensus Forecast's medium term inflation outlook for China. Consensus Forecast are a UK-based agency that provides consensus forecasts (mean) of key economic parameters provided by a number of economic forecasters. The consensus forecasts are obtained as the mean of the forecasts provided by a number of economic forecasters. The consensus forecasts for China are a consensus of the views of a number of forecasters, including some global investment banks.

CFK prefers a more forward-looking view of inflation rather than using what is in fact a mean reversion approach. If using a mean reversion approach, the debate will then becomes what period you use. Mean reversion in PRC would not take into account the recent economic growth that PRC has achieved which changes the economic environment, and this means that the past is not necessarily a good predictor of the future.

Consequently, CFK estimates the real, pre-tax, cost of capital for a forest owner at between 4.5% and 7.0%.

B.5 **Summary**

The discount rate derived from the CAPM analysis is broadly consistent with the IDRs observed in both the Northern Hemisphere and Southern Hemisphere transactions. The issue then becomes what is the appropriate discount rate to use for a RMB denominated forest value for a forest situated in the PRC. Both the IDR analysis and the CAPM analysis generate discount rates that are significantly below the range used by other valuer's for forests in the PRC.

B.6 **Choice of discount rate**

Valuation theory suggests that where possible, any adjustments for risk (political, foreign investment, foreign currency risk) should be made in the underlying cash flows and not through adjustments to the discount rate. In practice adjustments to the discount rate are generally made to account for intangible factors including the risk factors in the previous sentence. In undertaking an IAS 41 valuation, it is more appropriate given the definition of fair value in the standard to place more weight on the transactional evidence than other evidence, in order to meet the standard's definition of *"fair value"*.

In order to derive the discount rate, the relative risk profile of the forests must be compared to the risk profile of the forests in the transaction database. Accordingly, CFK has assessed the risk of the Group's forests *relative to the forests in the transactional evidence* as follows.

There are a number of factors to be considered when evaluating the non-quantifiable risk profile of the forests:

- Security of tenure
- Reliability of the area description
- Reliability of the forest yield and growth projections
- Cost profile
- Relevant log markets

Sichuan

In so far as the Group's Forests in Sichuan are concerned:

Negative factors (i.e. has a lower risk than the transactional evidence)

- As both the Group's inputs (both income and costs) and the valuation of the Groupare denominated in RMB, currency translation is not required, and therefore there isno foreign exchange risk as a result of currency translation
- Although volatility of a currency may affect the value of future cashflow in absoluteterm and requires a higher discount rate to compensate, RMB is a stable currency and has a less currency risk

- Most of the Group's forests are immediate harvestable, reducing the uncertainty inthe growth of the Group's tree crop
- There is security of land use and ownership of the trees
- The cost profile compares favourably with other forestry organisations
- The Group has a history of harvesting operations and established customer base
- The Sichuan log market is currently undersupplied and could easily absorb additional volume

Positive factors (i.e. has a higher risk than the transactional evidence)

- There is only limited operating history of the Group
- The rules and regulations of PRC regarding large scale commercially owned forestry are still evolving
- The area description appears to have been based on a sound approach, but are lesscomprehensive than the forests in the transactional evidence
- The base forest inventory is less comprehensive and reliable than the forests in the transactional evidence
- Future growth rates under the proposed harvesting regime are uncertain
- The Group has been rapidly expanded during the past few years and approximately 85% of its Sichuan forests were acquired after 2006

Based on the above, the Group's risk profile is considered to be positive (i.e. has a higher risk than average) relative to the forests in the transactional database. This is primarily because the forest description while suitable for the purposes of forest valuation is not as comprehensive as that found in the Northern Hemisphere and Southern Hemisphere transactions. In addition the forest industry is not as developed as that found in the other countries. On the positive side (that leads to a decrease in the risk profile) is that the industry is growing quickly and the PRC currently has a wood deficit, and hence, demand for wood in China is predicted to increase.

Selection of discount rate

The IAS 41 Fair Value discount rate is based on a 'willing buyer, willing seller' with no compulsion to act and is applied in the context of the value of The Group's estate as a whole.

The discount rate for the estate is viewed in the following context:

- CAPM analysis indicates that the discount rate should lie in the range of 4.5% to 7.0%; the mid point is 5.75%
- Southern Hemisphere transactional analysis indicates a discount rate of between 5.3% and 8.35%, with a mid point of 7.1%
- Sales of Northern Hemisphere forests transact at around 6%
- The market for plantation assets in the PRC is relatively undeveloped with few (if any) open market sales relative to the Northern Hemisphere and the Southern Hemisphere where the market consists of more "open market" transactions. This will result in a general risk premium over the transactional evidence

The discount rate for a specific forest asset will vary depending on its specific, non-quantifiable risk profile. CFK is of the view that the risk profile of the Sichuan forests is greater than that represented in the transactional database and warrants a higher discount rate than the range indicated by the CAPM analysis and the transactional evidence.

The fundamental factors that affect forestry performance are favourable. Importantly, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. On this basis a valuation discount rate of 9.0% is indicated.

Yunnan (Luxi)

In so far as The Group's forests are concerned:

Negative factors (i.e. has a lower risk than the transactional evidence)

- As both the Group's inputs (both income and costs) and the valuation of the Group are denominated in RMB, currency translation is not required, and therefore there is no foreign exchange risk as a result of currency translation
- Although volatility of a currency may affect the value of future cashflow in absolute term and requires a higher discount rate to compensate, RMB is a stable currency and has a less currency risk
- Most of the Group's forests are immediate harvestable, reducing the uncertainty in the growth of the Group's tree crop
- The cost profile compares favourably with other forestry organisations
- There is security of land use and ownership of the trees
- The Group has secured some of the orders from its customers

Positive factors (i.e. has a higher risk than the transactional evidence)

- Future growth rates under the proposed harvesting regime are uncertain
- The area description appears to have been based on a sound approach, but are less comprehensive than the forests in the transactional evidence
- The base forest inventory is less comprehensive and reliable in the transactional evidence
- The forests have only a limited harvest history and suitable log markets and solid customer base to allow harvesting to occur at the maximum rate still has to be developed
- The Yunnan forest market is not as well developed as those in Sichuan

Overall The Group's risk profile is considered to be significantly positive (i.e. has a higher risk than average) relative to the forests in the transactional database, principally due to the lack of harvest history.

Selection of discount rate

The IAS 41 Fair Value discount rate is based on a 'willing buyer, willing seller' with no compulsion to act and is applied in the context of the value of The Group's estate as a whole.

The discount rate for the estate is viewed in the following context:

- CAPM analysis indicates that the discount rate should lie in the range of 4.5 to 7.0%, the mid point is 5.75%

- Southern Hemisphere Transactional analysis indicates a discount rate of between 5.3% and 8.4%, with a mid point of 7.1%

- Sales of Northern Hemisphere forests transact at around 6%

- The market for plantation assets in the PRC is relatively undeveloped with few (if any) open market sales relative to the Northern Hemisphere and the Southern Hemisphere where the market consists of more "open market" transactions. This will result in a general risk premium over the transactional evidence

The fundamental factors that affect forestry performance are favourable. Importantly, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. Having said that, CFK is of the view that the current risk profile of the Yunnan estate near Luxi is higher than the Group's forests in Sichuan province, and the discount rate should be significantly higher than that from the transactional evidence. The Group's forest in Sichuan has an established sales record with sales and operations since 2003 whilst the Group's forest in Yunnan has only commenced sales since May 2008, such lack of historical sales order in the Group's Yunnan forest warrants a higher risk profile. On this basis a valuation discount rate of 11.0% is indicated.

Yunnan (Wenshan)

In so far as The Group's forests are concerned:

Negative factors (i.e. has a lower risk than the transactional evidence)

- As both the Group's inputs (both income and costs) and the valuation of the Group are denominated in RMB, currency translation is not required, and therefore there is no foreign exchange risk as a result of currency translation

- Although volatility of a currency may affect the value of future cash flow in absolute term and requires a higher discount rate to compensate, RMB is a stable currency and has a less currency risk

- Most of the Group's forests are immediate harvestable, reducing the uncertainty in the growth of the Group's tree crop

- The cost profile compares favourably with other forestry organisations

- There is security of land use and ownership of the trees; and The Group has secured some of the orders from its customers

Positive factors (i.e. has a higher risk than the transactional evidence)

- Future growth rates under the proposed harvesting regime are uncertain;

- The area description appears to have been based on a sound approach, but are less comprehensive than the forests in the transactional evidence

- The base forest inventory is less comprehensive and reliable in the transactional evidence

- The forests are highly variable
- The forests are not currently being harvested and suitable log markets still has to be developed
- The Yunnan forest market is not as well developed as those in Sichuan

Overall The Group's risk profile is considered to be significantly positive (i.e. has a higher risk than average) relative to the forests in the transactional database, principally due to the lack of harvest history and variability of the forest estate.

Selection of discount rate

The IAS 41 Fair Value discount rate is based on a 'willing buyer, willing seller' with no compulsion to act and is applied in the context of the value of The Group's estate as a whole.

The discount rate for the estate is viewed in the following context:

- CAPM analysis indicates that the discount rate should lie in the range of 4.5 to 7.0%, the mid point is 5.75%
- Southern Hemisphere Transactional analysis indicates a discount rate of between 5.3% and 8.4%, with a mid point of 7.1%
- Sales of Northern Hemisphere forests transact at around 6%
- The market for plantation assets in the PRC is relatively undeveloped with few (if any) open market sales relative to the Northern Hemisphere and the Southern Hemisphere where the market consists of more "open market" transactions. This will result in a general risk premium over the transactional evidence

The fundamental factors that affect forestry performance are favourable. Importantly, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. Having said that, CFK is of the view that the current risk profile of the Wenshan estate is higher than the Group's forests in Sichuan province or in Luxi (Yunnan), and the discount rate should be significantly higher than that from the transactional evidence. The Group's forest in Sichuan has an established sales record with sales and operations since 2003 and the Group's forest in Yunnan (Luxi) has commenced sales since May 2008. Wenshan has not harvest history and a more variable forest resource and warrants a higher risk profile.

On this basis a valuation discount rate of 13.0% is indicated.

Yunnan (Ninglang)

In so far as The Group's forests are concerned:

Negative factors (i.e. has a lower risk than the transactional evidence)

- As both the Group's inputs (both income and costs) and the valuation of the Group are denominated in RMB, currency translation is not required, and therefore there is no foreign exchange risk as a result of currency translation
- Although volatility of a currency may affect the value of future cash flow in absolute term and requires a higher discount rate to compensate, RMB is a stable currency and has a less currency risk

- Most of the Group's forests are immediate harvestable, reducing the uncertainty in the growth of the Group's tree crop

- The cost profile compares favourably with other forestry organisations

- There is security of land use and ownership of the trees; and The Group has secured some of the orders from its customers

Positive factors (i.e. has a higher risk than the transactional evidence)

- Future growth rates under the proposed harvesting regime are uncertain

- The area description appears to have been based on a sound approach, but are less comprehensive than the forests in the transactional evidence

- The base forest inventory is less comprehensive and reliable in the transactional evidence

- The forests are highly variable

- The forests are not currently being harvested and suitable log markets still has to be developed

- The Yunnan forest market is not as well developed as those in Sichuan

Overall The Group's risk profile is considered to be significantly positive (i.e. has a higher risk than average) relative to the forests in the transactional database, principally due to the lack of harvest history and variability of the forest estate.

Selection of discount rate

The IAS 41 Fair Value discount rate is based on a 'willing buyer, willing seller' with no compulsion to act and is applied in the context of the value of The Group's estate as a whole.

The discount rate for the estate is viewed in the following context:

- CAPM analysis indicates that the discount rate should lie in the range of 4.5 to 7.0%, the mid point is 5.75%

- Southern Hemisphere Transactional analysis indicates a discount rate of between 5.3% and 8.4%, with a mid point of 7.1%

- Sales of Northern Hemisphere forests transact at around 6%

- The market for plantation assets in the PRC is relatively undeveloped with few (if any) open market sales relative to the Northern Hemisphere and the Southern Hemisphere where the market consists of more "open market" transactions. This will result in a general risk premium over the transactional evidence

The fundamental factors that affect forestry performance are favourable. Importantly, the definition of market value for the forests requires that there be not just willing buyers, but also willing sellers. If the only purchase offers to be extended involved very high discount rates, we would expect that forests would not be willingly sold. Having said that, CFK is of the view that the current risk profile of the Ninglang estate is higher than the Group's forests in Sichuan province or in Luxi (Yunnan), but similar to that in Wenshan (Yunnan) and the discount rate should be significantly higher than that from the transactional evidence. The Group's forest in Sichuan has an established sales record with sales and operations since 2003 and the Group's forest in Yunnan (Luxi) commenced sales since May 2008. Ninglang like Wenshan has no harvest history and a more variable forest resource and warrants a higher risk profile.

On this basis a valuation discount rate of 13.0% is indicated.

B.7 Conclusion

The discount rates used across The Group's estate are summarised in Table B 3 below.

Table B 3 Discount rates

Forest	Area (ha)	Value (RMB million)	Discount rate
Suchuan	12,447	1,067	9.0%
Yunnan-Luxi	5,933	4,466	11.0%
Yunnan-Wenshan	100,000	2,086	13.0%
Estate Average	171,780	7,619	12.02%

Overall the discount rate underlying the valuation of the Group's forests lies higher than the range of 10% to 11.5% used by other forest valuers for forests situated in PRC. The discount rate falls outside the top end of the range of discount rates as indicated by the transactional evidence and the CAPM analysis which means that the additional return is required from plantation assets at this stage of the industry's development in the PRC.

On the other hand, CFK notes from the 2008 annual report and valuation as at 31 December 2008 of Sino Forest, the circular of China Grand Forestry dated 24 July 2008, and the 31 March annual valuation of China Grand Forestry that such discount rate is marginally higher than the discount rate used by Poyry when valuing forests owned by SinoForest *(Note 1)* and China Grand Forestry *(Note 2)* in the PRC. Such difference can be attributable to the following reasons:

- There is a significant difference in the underlying price assumptions between the approach used by Poyry and that adopted by CFK (as explained in detail below). While CFK adopts the current price for the valuation of the Group, CFK notes from the 2008 annual report and valuation as at 31 December 2008 of Sino Forest and the valuation as at 31 March 2008 of China Grand Forestry's tree crop that Poyry has applied real price increases for the first five period of the valuation

- CFK notes from the 2007 annual report and valuation as at 31 December 2007 of Sino Forest that the valuation done by Poyry with respect to forest of Sino Forest was denominated in USD, with log prices and costs incurred in RMB. The RMB outcome generated from the RMB inputs is required to translate into USD for the valuation report. Such translation inherently involves foreign exchange risk

- The Group has been operating its business in Sichuan since 2003 with an established track record on sales

CFK has used current prices for its valuation of the Group's forests. According to paragraph 17 of IAS 41, if an active market exists for a biological asset or agricultural produce, the quoted price in that market is the appropriate basis for determining the fair value of that asset. According to paragraph 20 of IAS 41, when market-determined prices or values is not available for a biological asset in its present condition, the present value of expected net cash flows from the asset discounted at a current market-determined pre-tax rate is used to determine the fair value. When estimating the future selling price for the purposes of discounting expected net cash flows, current market conditions will generally provide the best evidence on which to base estimates.

CFK has undertaken the valuation by using current prices which are then held constant in real terms for the period of the valuation (that is, prices will increase in line with inflation). CFK noted that Poyry has applied real price increases for the first 5 years of the valuation (that is, prices will increase faster than the rate of inflation) after which the prices are held constant. This is a more aggressive approach to pricing and hence has inherently more risk and would attract a higher discount rate. Based upon some analyses CFK has conducted on the Southern Hemisphere transactional analysis, the difference in the imputed IDR between the two pricing approaches is around 1 to 2 percentage points. This is similar to the difference in the two discount rates adopted by Poyry (as noted by CFK) and CFK.

B.8 **Non end-of-year valuation**

Besides the valuation as at 31 December 2009, CFK has also undertaken valuation for the Group's forestry assets as at 30 June 2010. Instead of running the valuation model again, the valuation as at 30 June 2010 is derived by adjusting the December 2009 base model to account for volume harvested and the passage of time. The valuation inputs (such as log prices, costs and yield) are unchanged from those used in the December 2009 valuation.

Unless there were significant and permanent changes to prices and costs, there was no need to re-run the estate optimisation model to calculate the mid year value. Instead, the end-of-year valuation model was adjusted for the volume harvested, and any costs incurred between the end-of-year valuation and the valuation date, and the first period of the valuation reduced to reflect the balance of time to the end of the year. This has the effect of reducing the period over which the future cash flows are discounted. The principle reason for this is that forest growth does not occur evenly throughout the year and the convention is to assume that growth occurs at the same time as the trees birth-date. Without volume growth and significant changes in prices/costs, the model would not

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