HALCYON 鎧盛

7 March 2013

To the Independent Board Committee

Dear Sirs,

THE UNCONDITIONAL MANDATORY GENERAL CASH OFFERS BY MOELIS & COMPANY ASIA LIMITED ON BEHALF OF EMERALD PLANTATION GROUP LIMITED TO ACQUIRE ALL THE ISSUED ORDINARY SHARE CAPITAL OF GREENHEART GROUP LIMITED (OTHER THAN THE ORDINARY SHARES ALREADY OWNED OR CONTROLLED BY EMERALD PLANTATION GROUP LIMITED AND PARTIES ACTING IN CONCERT WITH IT AT THE TIME THE OFFER IS MADE), OFFER FOR THE CANCELLATION OF ALL OUTSTANDING OPTIONS AND OFFER FOR ALL OUTSTANDING CONVERTIBLE NOTES

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in relation to the terms of the Offers, details of which are set out in the Offer Document dated 21 February 2013 and issued by the Offeror and the Response Document dated 7 March 2013 and issued by the Company to the Shareholders and the holders of the Options and the Convertible Notes. Terms used in this letter shall have the same meanings as those defined in the Response Document unless the context otherwise requires.

As referred to in the "Letter from the Board" of the Response Document (the "**Letter**"), on 31 January 2013, the Offeror announced, among other things, that pursuant to the Plan as approved by the creditors of Sino-Forest on 3 December 2012 and sanctioned by the Ontario Superior Court of Justice on 10 December 2012, all of Sino-Forest's group companies and substantially all of the other assets of Sino-Forest, including the entire issued share capital of SCGI (which holds 495,519,102 Shares, representing approximately 63.6% of the issued Shares), were transferred to the Offeror pursuant to the implementation of the Plan on 30 January 2013 (Toronto time). As a consequence, the Offeror acquired an indirect interest in 495,519,102 Shares representing approximately 63.6% of the issued Shares.

As a result of the implementation of the Plan, the Offeror is required to make a mandatory general offer for all the issued Shares (other than those already owned or controlled by it and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code. Pursuant to Rule 13 of the Takeovers Code, the Offeror is also required to make an appropriate offer for cancellation of all outstanding Options and an appropriate offer for the Convertible Notes. As the Offeror and persons acting in concert with it hold more than 50% of the voting rights of the Company, the Offers are unconditional.

The Independent Board Committee comprising all the non-executive Directors, namely Messrs. Simon Murray, Wong Kin Chi, Wong Che Keung Richard and Tong Yee Yung Joseph has been established to make a recommendation as to whether the Offers are fair and reasonable and as to acceptance and has approved our appointment as the Independent Financial Adviser regarding the Offers. In our capacity as the Independent Financial Adviser to the Independent Board Committee, our role is to provide the Independent Board Committee with an independent opinion and recommendation as to whether the terms of the Offers are fair and reasonable and as to acceptance.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information, financial information and facts included in the Offer Document and the Response Document and supplied to us, and the representations expressed by the Directors and/or management of the Group, and have assumed that all such information, financial information, facts and any representations made to us, or referred to in the Offer Document and the Response Document, in all material aspects, were true, accurate and complete as at the time they were made and as at the Latest Practicable Date, have been properly extracted from the relevant underlying accounting records (in the case of financial information) and made after due and careful inquiry by the Directors and/or the management of the Group. Shareholders will be notified of material changes by the Company as soon as possible, if any, after the Latest Practicable Date and throughout the Offer Period to the information and representations provided and made to us. The Directors and/or the management of the Group have confirmed that, having made all reasonable enquiries and to the best of their knowledge and belief, all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable. We have no reason to doubt the completeness, truth or accuracy of the information and representations provided and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

Our review and analyses were based upon, among others, the Offer Document and the information provided by the Group including the announcements, annual and interim reports of the Company and the Response Document.

We considered that we have reviewed sufficient information to reach an informed view and to justify reliance on the information provided and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Offer Document and the Response Document and supplied to us by the Directors and/or the management of the Group nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position, profitability or prospects of the Group or the Offeror Group. We also have not considered the tax implications on the Independent Shareholders and the holders of the Options and the Convertible Notes of their acceptances or non-acceptances of the Offers since these are particular to their own individual circumstances. In particular, the Independent Shareholders and the holders of the Options and the Convertible Notes who are residents outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions with regard to the Offers and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Offers to the Independent Board Committee, we have considered the following principal factors and reasons:

I. The Share Offer

1. Business and financial performance and outlook of the Group

The Group is principally engaged in log harvesting, timber processing, and marketing and sales of logs and timber products.

Set out below are highlights of the financial information and operating results of the Group for the two years ended 31 December 2010 and 2011 and for the six months ended 30 June 2011 and 2012 as extracted from the annual report of the Company for the year ended 31 December 2011 (the "**Annual Report**") and the interim report of the Company for the six months ended 30 June 2012 (the "**Interim Report**") respectively:

	For the six months ended 30 June		**For the year ended 31 December**	
	2012	**2011**	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(unaudited)	*(unaudited)*	*(Audited)*	*(Audited)* *(restated)*
Revenue	202,640	124,061	326,984	17,031
Gross profit	71,976	63,238	154,784	8,597
Gross profit margin	*35.5%*	*51.0%*	*47.3%*	*50.5%*
Loss before taxation	(35,400)	(12,074)	(93,949)	(80,223)
Loss for the period/year	(38,617)	(22,981)	(105,887)	(86,648)
Loss attributable to equity holders of the Company	(19,789)	(11,849)	(74,343)	(67,606)

The following is a summary of the Group's financial position as at 31 December 2011 and 30 June 2012 as extracted from the Annual Report and the Interim Report:

	As at 30 June 2012 HK$'000 (Unaudited)	As at 31 December 2011 HK$'000 (Audited)
Timber concessions and cutting rights	796,894	800,201
Plantation forest assets	496,642	489,568
Property, plant and equipment	376,179	286,950
Other total non-current assets	81,040	80,836
Cash and cash equivalents	202,868	285,018
Other total current assets	104,996	88,628
Total assets	**2,058,619**	**2,031,201**
Total current liabilities	85,119	75,637
Loan from the ultimate holding company	312,000	312,000
Convertible bonds	207,927	201,553
Other total non-current liabilities	163,360	117,254
Total liabilities	**768,406**	**706,444**
Total equity	**1,290,213**	**1,324,757**

As disclosed in the Annual Report, the revenue of the Group for the year ended 31 December 2011 ("**FY2011**") was approximately HK$327.0 million, representing an increase of approximately 18 times as compared to the revenue for the year ended 31 December 2010 ("**FY2010**"), which was primarily attributable to the inclusion of sales of approximately HK$300.7 million generated from the softwood radiata pine plantations in New Zealand acquired by the Group in 2011 (the "**New Zealand Plantation**"). The New Zealand Plantation was acquired by the Group on 31 March 2011 and consists of approximately 13,000 hectares of freehold land, including approximately 11,000 hectares of softwood radiata pine plantations. Revenue contributed from the Group's operations in Republic of Suriname ("**Suriname**") also increased by about 52.6% from approximately HK$16.7 million for FY2010 to approximately HK$25.5 million for FY2011, which was mainly attributable to the increase in the Group's export logs volume in Suriname and the sale of timber products in 2011.

The gross profit of the Group for FY2011 was approximately HK$154.8 million, representing an increase of approximately 17 times as compared to the gross profit for FY2010 of approximately HK$8.6 million, and was mainly contributed by the Group's radiata pine business in New Zealand of approximately HK$143.9 million and the tropical hardwood business in Suriname of approximately HK$10.6 million. As advised by the management of the Group, the Group also commenced logs and timber products trading business across different regions, mainly from South America to China, during FY2011, which contributed a gross profit of approximately HK$0.3 million for FY2011. As stated in the Annual Report, the significant increase in gross profit of the Group was mainly attributable to the increase in sales of approximately 353,000 cubic meters of radiata pine in New Zealand and sales of approximately 2,000 cubic meters of logs, 1,150 cubic meters of sawn timber and 51,600 units of processed wood pallets from the concessions of the Group in Suriname for FY2011.

The gross profit margin of the Group for FY2011 was approximately 47.3% as compared to the gross profit margin of 50.5% for FY2010. The gross profit margin for the operations in New Zealand and the operations in Suriname for FY2011 was approximately 47.9% and approximately 41.5%, respectively. As stated in the Annual Report, the decrease in gross profit margin of the Group for FY2011 was mainly due to the significant increase in sales of New Zealand radiata pine which contributed a lower gross profit margin as compared to the gross profit margin for FY2010.

Despite increment in the Group's gross profit, loss attributable to the equity holders of the Company for FY2011 increased by approximately 10.0% to approximately HK$74.3 million, as compared to loss attributable to the equity holders of the Company of approximately HK$67.6 million for FY2010. Such increase in loss was mainly resulted from the combining effects of: (i) increase in selling and distribution costs of approximately HK$123.1 million which was mainly attributable to the ocean freight and logistics related costs incurred from the sale of the Group's radiata pine in New Zealand; (ii) increase in administrative expenses of approximately HK$39.8 million which was mainly attributable to one-off legal and professional fees and compliance fees incurred for certain legal consultation services, due-diligence reviews on potential investments and regulatory compliance, and increase in staff costs and rent and rates to cater for the Group's expansion; (iii) increase in other operating expenses of approximately HK$22.5 million which was mainly attributable to the provision for a short term loan made to a potential investee, and costs and expenses incurred for the expansion of operations in East Suriname and the construction of a central log patio for log storage in West Suriname; (iv) increase in finance costs of approximately HK$13.3 million as a result of the issue of the Convertible Notes in August 2010 with higher effective interest rate than that of the convertible bonds with principal amount of HK$237.0 million issued in November 2007 and fully converted into new Shares in September 2010; and (v) increase in fair value gain of approximately HK$22.0 million for the New Zealand Plantation.

As disclosed in the Interim Report, the revenue of the Group for the six months ended 30 June 2012 (**"1H FY2012"**) was approximately HK$202.6 million, representing an increase of approximately 63.3% as compared to the Group's revenue for the six months ended 30 June 2011 (**"1H FY2011"**) of approximately HK$124.1 million. The growth in the Group's revenue was primarily contributed by the increase in sales generated from the Group's operation in New Zealand as a result of the Group's further ramp-up in the harvesting activities in New Zealand for 1H FY2012. As advised by the management of the Group, the increase in sales was mainly driven by more export of radiata pine from the New Zealand Plantation to the Chinese and Indian markets.

The gross profit of the Group for 1H FY2012 was approximately HK$72.0 million, representing an increase of approximately 13.8% as compared to the gross profit for 1H FY2011 of approximately HK$63.2 million, which was contributed by the Group's radiata pine business in New Zealand of approximately HK$65.4 million, the tropical hardwood business in Suriname of approximately HK$6.0 million and the log and timber products trading of approximately HK$0.5 million. The increase in gross profit of the Group was mainly attributable to the increase in sales of approximately 105,000 cubic meters of radiata pine in New Zealand for 1H FY2012.

The gross profit margin of the Group for 1H FY2012 was approximately 35.5% as compared to the gross profit margin of approximately 51.0% for 1H FY2011. The Group's gross profit margin for the operations in New Zealand and the operations in Suriname for 1H FY2012 was approximately 35.3% and approximately 40.1%, respectively, both of which decreased as compared to their respective gross profit margin of approximately 51.6% and 45.6% for 1H FY2011. As stated in the Interim Report, the decrease in gross profit margin for the Group's operations in New Zealand was mainly attributable to (i) a strategic adjustment of radiata pine grading of the Group; (ii) a decrease in overall prices of radiata pine in the Chinese market; and (iii) an increase in the operating costs of the Group in New Zealand due to the appreciation of New Zealand dollars against United States dollars during 1H FY2012. The decrease in gross profit margin for the Group's operations in Suriname was mainly due to an increase in overall operating costs in Suriname, which mainly resulted from (i) the addition of loading and other related costs of setting up the central log yard as a storage and selection centre for better inventory management and control of the Group; and (ii) the relatively high inflation rate in Suriname, which had previously reached 22.6% in April 2011 and was stabilised at 6.5% as of March 2012 due to tighter financial controls.

Loss attributable to the equity holders of the Company for 1H FY2012 was approximately HK$19.8 million, representing an increase of approximately 67.0% as compared to loss attributable to the equity holders of the Company for 1H FY2011 of approximately HK$11.8 million. Such increase was mainly a result of the combining effects of: (i) increase in selling and distribution costs of approximately HK$28.9 million which was mainly attributable to the ocean freight and logistics related costs incurred from the increased sale of the Group's radiata pine in New Zealand; (ii) increase in other operating expenses of approximately HK$11.4 million which was mainly attributable to the additional costs and expenses incurred for the preparation and testing of the Group's new wood processing facility in West Suriname and new development costs for the expansion of sustainable forestry operations in the East and Central concessions; and (iii) increase in fair value gain of approximately HK$7.4 million for the New Zealand Plantation.

As shown from the above, the Group had total assets of approximately HK$2,031.2 million as at 31 December 2011 including, among others, timber concessions and cutting rights of approximately HK$800.2 million (accounting for approximately 39.4% of the total assets of the Group), plantation forest assets of approximately HK$489.6 million (accounting for approximately 24.1% of the total assets of the Group), property plant and equipment of approximately HK$287.0 million (accounting for approximately 14.1% of the total assets of the Group) and cash and cash equivalents of approximately HK$285.0 million (accounting for approximately 14.0% of the total assets of the Group). The timber concessions and cutting rights of the Group represent the rights to harvest trees in the allocated concession forests in designated areas in Suriname. Total liabilities of the Group as at 31 December 2011 amounted to approximately HK$706.4 million, including, among others, a loan (the "**Holding Company Loan**") with a principal amount of US$40.0 million (equivalent to HK$312.0 million) granted by Sino-Forest (accounting for approximately 44.2% of the total liabilities of the Group) and the Convertible Notes of approximately HK$201.6 million (accounting for approximately 28.5% of the total liabilities of the Group).

As at 30 June 2012, the Group had total assets of approximately HK$2,058.6 million, with timber concessions and cutting rights remained the largest balance sheet item which amounted to approximately HK$796.9 million (accounting for approximately 38.7% of the total assets of the Group); and other major assets mainly included plantation forest assets of approximately HK$496.6 million (accounting for approximately 24.1% of the total assets of the Group), property plant and equipment of approximately HK$376.2 million (accounting for approximately 18.3% of the total assets of the Group) and cash and cash equivalents of approximately HK$202.9 million (accounting for approximately 9.9% of the total assets of the Group). The Group's total liabilities as at 30 June 2012 increased to approximately HK$768.4 million, representing an increase of approximately 8.8% as compared to the Group's total liabilities as at 31 December 2011, which was mainly due to the Group's draw down of loan from SCGI of approximately HK$47.6 million as at 30 June 2012.

Future prospect of the Group

According to the Annual Report, the Group aimed to continue (i) ramping up its harvesting level in New Zealand to accommodate demands for radiata pine in China, as well as other markets such as India; and (ii) increasing its forest concessions under management in Suriname and enhancing its new processing facilities in West Suriname which provided foundation for its expansion of processing operation into other forest concessions of Suriname in the future. As disclosed in the Interim Report, despite the growth of the Group's revenue for 1H FY2012, the net loss of the Group increased for 1H FY2012 which was mainly driven by the decrease in overall radiata pine prices in China resulted from its weaker construction market (while China was a key market for the Group's radiata pine in New Zealand and logs in Suriname) and increase in operating expenses mainly attributable to additional costs and expenses incurred for the preparation and testing of the Group's new processing facility in West Suriname. As advised by the management of the Group, the construction market in China was weakened as a result of the measures taken by the Chinese government to curb the property speculation. We understand from the management of the Group that the Group has followed its planned investment, harvesting and processing strategy in Suriname during 1H FY2012 and with the introduction of new processing facilities in West Suriname, the Group aimed to diversify its product range and enhance its profit margins and to produce niche products for Europe as well as increase marketing efforts of hardwood lumber into Asian markets like India. Concurrent with the Group's strategy in Suriname to boost productivity levels and sales, the Group remained committed in its efforts to achieve accreditation of Forest Stewardship Council (a global and not-for-profit organisation dedicated to the promotion of responsible forest management worldwide) as its commitment to high standards of sustainable forestry and to open up more market opportunities for its hardwood products, particularly in Europe and North America.

According to the press release published by the National Bureau Statistics of China on 18 January 2013, the total investment in real estate development in China in 2012 was approximately Renminbi ("RMB") 7,180.4 billion, representing a year-on-year nominal growth of approximately 16.2%, but such growth rate was much less than the nominal growth for 2011 of approximately 28.1%. According to the news brief from Wood Resources International LLC ("**WRI**"), a forest industry consulting firm, the reduction in construction activities in China during 2012 has resulted in reduced demand for lumber, which led to decline in both volume and prices of importation of softwood logs and lumber to China. WRI reported that demand for imported softwood logs in China increased in the second half of 2012 after declining during the first six months of 2012 and more shipments were from New Zealand which supported the rise in average import value of radiata pine of New Zealand in the fourth quarter of 2012. According to a news release by International Wood Markets Group Inc., a forest market research and analysis provider, on 10 December 2012, the demand for imported logs and lumber in China is expected to return to a steady growth after 2012 as a result of its growing wood deficit. Nevertheless, there is no assurance that China will not impose any macro-economic administrative measures from time to time against the real estate market in China which may affect the demand for imported logs and lumber.

According to RISI, an information provider for the global forest products industry, India is the fastest growing softwood log market in Asia, which is a market accounted for approximately 15.4% of the Group's log sales in New Zealand for 1H FY2012. As advised by the management of the Company, the Group continued to expand its softwood market with shipments to India in 2012, which, according to the latest publicly available information on the website of Ministry of Primary Industries in New Zealand, has been the third largest market after China in term of logs export of New Zealand for 2009, 2010, 2011 and the first half year of 2012. As advised by the management of the Company, India is an important market to the Group, as the radiata pine market in India is growing fast and India will also be one of the markets for the Surinamese hardwoods of the Group.

As advised by the management of the Company, the Group has completed phase one of the construction of a hardwood processing facility in West Suriname and commenced production of new sawn lumber and higher value products such as flooring and decking products and focused its sales and marketing of lumber products on new higher margin markets such as Europe, North America, Australia and India.

Furthermore, we understand from the management of the Company that the Group is in the process of construction of additional dry kilns and molders for the purpose of enhancing the quality of the hardwood lumber produced and preparation for the construction of a second sawmill line in West Suriname in order to increase the production capacity to cater for market demand from Europe and the United States once their economies are recovered. The management of the Group states that the Group also has new plans to build a bioenergy plant adjacent to its processing facility for converting the waste produced from the processing facility into green energy. Such bioenergy plant is expected to power the Group's processing facility and camp site, which allows the Group to save diesel fuel consumption.

As advised by the management of the Company, the Group has commenced log and timber products trading business in FY 2011 and has further initiated a trading strategy in the second half of 2012, which focuses on the sourcing of third-party logs and lumber from other sustainable hardwood and softwood suppliers and trading to existing and new customers for a margin.

We understand from the management of the Group that with the above action plans, the Group will continue its business strategies to increase harvest levels in New Zealand, increase market share in India and China as well as explore new opportunities for trading margin expansion for the business operations in New Zealand and Suriname.

As disclosed in the Company's announcement dated 20 December 2012, the Group has entered into an agreement with the Bank of New Zealand in relation to a US$5.0 million repayable on demand overdraft facility and a US$25.0 million cash advance facility maturing on 30 November 2015 (collectively, the "**Bank Loan Facilities**"). As disclosed in the Response Document, the Company redeemed US$8 million of the principal amount of the Convertible Notes by cash on 20 February 2013 under the terms and conditions of the Convertible Notes and following such redemption, the holder of the Convertible Notes may subsequently exercise its redemption right (in whole or in part of its outstanding Convertible Notes) at any time prior to the maturity of the Convertible Notes (but the Group has not received any further notice from the holder of the Convertible Notes with regard to its intention over the remaining outstanding principal amount of the Convertible Notes of US$17 million as at the Latest Practicable Date) and the remaining balance of the Convertible Notes shall be classified as current liabilities in the Group's consolidated statement of financial position thereafter. As mentioned in the Offer Document and the Letter in the Response Document, all of Sino-Forest's group companies and substantially all of the other assets of Sino-Forest, including the entire issued share capital of SCGI (which holds 495,519,102 Shares, representing approximately 63.6% of the issued Shares), were transferred to the Offeror pursuant to the implementation of the Plan. It was noted in the Offer Document that the Offeror has not formed any views on whether major changes should be introduced to the Group's business and the Offeror intends to review the business activities and management of the Group, with a view to evaluating its strategy on its equity investment in the Company and its financial support to the Group. As disclosed in the Interim Report, the Holding Company Loan is repayable on 17 August 2013. As advised by the management of the Group, Sino-Forest has assigned all of its rights and benefits under the Holding Company Loan to the Offeror pursuant to the implementation of the Plan and the Company is in discussion with the Offeror to seek for its agreement to extend the repayment date of the Holding Company Loan to 2014while no decision has yet been made by the Offeror as at the Latest Practicable Date. We understand from the management of the Group that if the extension of repayment of the Holding Company Loan is not granted, the Group will have to obtain other financial resources to meet with its repayment obligation and one possible option the management of the Group may consider is to sell some of its non-current assets. Based on the above and taking into account the Group's existing financial resources, the Board and the management of the Group are of the view, which we concur with, that the Group will have sufficient financial resources and working capital to finance its operations and to meet with its financial obligations, including the full redemption of the Convertible Notes if the redemption right is exercised by the holder of the Convertible Notes. The Independent Shareholders and the holders of the Options and the Convertible Notes are reminded to consider carefully that the Group may have financial distress if the Group cannot seek for the Offeror's agreement to extend the repayment date of the Holding Company Loan and cannot obtain other financial resources to meet with its repayment obligation.

2. Valuation of the Share Offer Price

The Share Offer Price of HK$0.58 per Offer Share represents:

(a) a discount of approximately 1.7% to the closing price of the Shares quoted on the Stock Exchange of HK$0.59 per Share on 23 January 2013 (the "**Last Trading Day**"), being the last full trading day on which the Shares were traded prior to suspension of trading of the Shares pending issue of the Announcement;

(b) a discount of approximately 1.0% to the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.59 per Share over the 5 trading days up to and including the Last Trading Day;

(c) a discount of approximately 0.9% to the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.59 per Share over the 10 trading days up to and including the Last Trading Day;

(d) a premium of approximately 1.3% over the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.57 per Share over the 30 trading days up to and including the Last Trading Day;

(e) a premium of approximately 4.3% over the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.56 per Share over the 60 trading days up to and including the Last Trading Day;

(f) a premium of approximately 6.8% over the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.54 per Share over the 90 trading days up to and including the Last Trading Day;

(g) a premium of approximately 16.9% over the average closing price of the Shares quoted on the Stock Exchange of approximately HK$0.50 per Share over the 180 trading days up to and including the Last Trading Day;

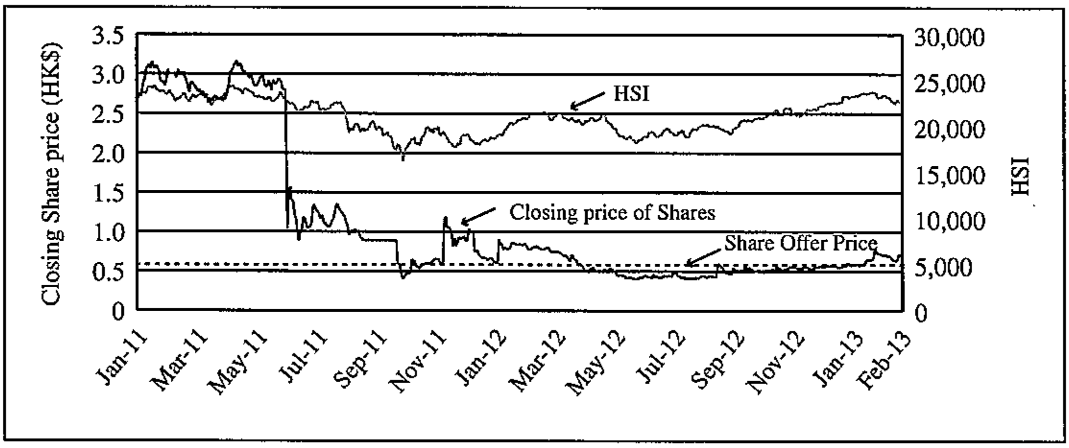
(h) a discount of approximately 17.1% to the closing price of HK$0.70 per Share as quoted by the Stock Exchange on the Latest Practicable Date;

(i) a discount of approximately 57.8% to the Company's audited consolidated net assets per Share of approximately HK$1.38 based on the Company's audited consolidated equity attributable to Shareholders of approximately HK$1,072,395,000 as at 31 December 2011 and 779,724,104 Shares in issue as at the Latest Practicable Date; and

(j) a discount of approximately 57.2% to the Company's unaudited consolidated net assets per Share of approximately HK$1.36 based on the Company's unaudited consolidated equity attributable to Shareholders of approximately HK$1,056,679,000 as at 30 June 2012 and 779,724,104 Shares in issue as at the Latest Practicable Date.

2.1 Historical trading price of the Shares

The following chart shows the closing prices of the Shares as quoted on the Stock Exchange from 1 January 2011 up to and including 24 January 2013 (the "**Pre-Announcement Period**") and from 31 January 2013 (being the first trading day immediately following the resumption of trading of the Shares upon the publication of the Announcement) up to and including the Latest Practicable Date (the "**Post-Announcement Period**") relative to the movement of the Hong Kong Hang Seng Index ("**HSI**"):



Source: the Stock Exchange's website (www.hkex.com.hk) and Bloomberg

During the period spanning from the beginning of the Pre-Announcement Period to the end of the Post-Announcement Period (the "**Review Period**"), the closing price of the Shares ranged from the lowest of HK$0.40 per Share recorded on 4 June 2012 to the highest of HK$3.16 per Share recorded on 13 April 2011. The Share Offer Price represents a premium of approximately 45% over the lowest closing price per Share and a discount of approximately 81.6% to the highest closing price per Share during the Review Period.

We noted that there was a slump in the closing price of the Shares since June 2011 which was not directly affected by the general market condition (as evidenced from the performance of HSI). Such dramatic decrease and fluctuations in the closing price of the Share may be affected by the incidents experienced by the Company set out below.

On 7 June 2011, the Company published an announcement (the "**Allegations Announcement**") that a report issued on a website by an organization made certain allegations towards Sino-Forest ("**Sino-Forest Allegations**"), the Company's then ultimate controlling shareholder (as defined in the Listing Rules), and had concerns about the Company. The price of the Share was closed at HK$1.03 on 8 June 2011, being the first trading date after the publication of the Allegations Announcement, represented a sharp decrease of approximately 63.2% from the closing price of the Share of HK$2.80 on 2 June 2011, being the last trading date prior to the issue of the Allegations Announcement. The closing price of the Share bounced back to HK$1.47 on 9 June 2011 followed by the publication of the Company's voluntary announcement to provide information regarding its business operations in Suriname. The closing price of the Share subsequently decreased to HK$0.88 on 20 June 2011 and the Company issued an announcement on unusual price and trading volume movements of the Shares at the request of the Stock Exchange and provided further information in relation to its key operations in Suriname and New Zealand and the independence of the Company's operations from Sino-Forest.

On 29 August 2011, the SFC directed the Stock Exchange to suspend trading in the Shares from 29 August 2011 and the Company announced the change of its chairman of the Board. Subsequently, the Company published an announcement (the "**Concession Announcement**") in relation to the successful renewal of concession and harvesting rights held by Dynasty Forestry Industry N.V., a subsidiary of the Company, in Suriname and the Company (i) provided responses to deny the doubts raised by the South China Morning Post on the validity and legality of the Group's harvesting rights and subcontracting arrangements in Suriname; (ii) provided further information on the relationship of the Group with Sino-Forest; and (iii) stated that the SFC's investigations into the Company's affairs were continuing. Trading in the Shares was resumed on 27 September 2011 with a closing price of the Share of HK$0.59, representing a decrease of approximately 33.7% from the closing price of Share of HK$0.89 on 26 August 2011, being the last trading date prior to the issue of the Concession Announcement.

The price of the Share was closed at HK$1.16 on 15 November 2011 and after market close, the Company issued an announcement on unusual price and trading volume movements of the Shares at the request of the Stock Exchange and provided updates in relation to a press release made by Sino-Forest for certain findings of the independent committee of the board of directors of Sino-Forest (the "**Independent Committee**") in respect of the Sino-Forest Allegations. On 13 December 2011, the trading in Shares was suspended for one day pending the release of an announcement (the "**Sino-Forest Announcement**") in relation to a press release dated 12 December 2011 in respect of the status of the third quarter financial results of Sino-Forest and the report of the Independent Committee. Trading of Shares was resumed on 14 December 2011 with a closing price of Share of HK$0.74, represented a decrease of approximately 26.0% from the closing price of Share of HK$1.00 on 12 December 2011, being the last trading date prior to the issue of the Sino-Forest Announcement.

The closing price of the Share followed a general downward trend as the market since then and on 1 April 2012, the Company made announcement regarding possible change of Sino-Forest's control on the Company following the announcements made by Sino-Forest regarding proposed restructuring plan with its noteholders. On 22 August 2012, the Company announced the termination of the investigation by the SFC and the closing price of Share on 23 August 2012 rose to HK$0.57, represented an increase of approximately 34.1% as compared to the closing price of Share on 22 August 2012. Since then, the closing price of the Shares had generally been moving in line with the HSI in an upward trend and the Company has made several announcements in respect of the press releases made by Sino-Forest regarding updates of its restructuring plan before publication of the Announcement on 31 January 2013.

During the Post-Announcement Period, the closing price of the Shares ranged from the lowest of HK$0.63 per Share recorded on 26 February 2013 to the highest of HK$0.79 per Share recorded on 1 February 2013 and remained higher than the Share Offer Price. The Share Offer Price represents a discount of approximately 17.1% to the closing price of the Share of HK$0.70 on the Latest Practicable Date. It is expected that such surge in the closing price of the Share during the Post-Announcement Period was probably a result of market reaction after the issue of the Announcement.

Independent Shareholders should note that there is no assurance that the trading price of the Shares will or will not be sustained or return to the previous trading level before the publication of the Allegations Announcement and it is uncertain whether the market price per Share will or will not be higher than the Share Offer Price during the Offer Period. Independent Shareholders should be reminded to closely monitor the market price of the Shares during the Offer Period.

2.2 *Liquidity of the Shares*

The following table sets out the trading volume of the Shares on the Stock Exchange during the Review Period:

	Total trading volume for the month/period *(Note 1)*	**Average daily trading volume for the month/period** *(Note 2)*	**Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date** *(Note 3)* *(approximately)*	**Percentage of average daily trading volume to total number of Shares held by public Shareholders as at the Latest Practicable Date** *(Note 4)* *(approximately)*
Pre-Announcement Period				
2011				
January	47,757,804	2,274,181	0.29%	0.83%
February	7,489,551	416,086	0.05%	0.15%
March	11,597,325	504,232	0.06%	0.18%
April	12,181,815	676,768	0.09%	0.25%
May	7,466,975	373,349	0.05%	0.14%
June	656,837,735	34,570,407	4.43%	12.60%
July	207,252,635	10,362,632	1.33%	3.78%
August	46,841,050	2,342,053	0.30%	0.85%
September	32,127,001	10,709,000	1.37%	3.90%
October	48,782,239	2,439,112	0.31%	0.89%
November	359,394,120	16,336,096	2.10%	5.96%
December	159,478,788	8,393,620	1.08%	3.06%
2012				
January	112,655,067	6,258,615	0.80%	2.28%
February	61,734,406	2,939,734	0.38%	1.07%
March	31,158,150	1,416,280	0.18%	0.52%
April	11,563,000	642,389	0.08%	0.23%
May	7,068,487	321,295	0.04%	0.12%
June	4,980,000	237,143	0.03%	0.09%
July	5,692,785	271,085	0.03%	0.10%
August	34,847,125	1,515,092	0.19%	0.55%
September	20,351,292	1,017,565	0.13%	0.37%
October	9,491,250	474,563	0.06%	0.17%
November	13,327,412	605,791	0.08%	0.22%
December	10,669,004	561,527	0.07%	0.20%
2013				
January (up to and including the Last Trading Day)	18,628,650	1,164,291	0.15%	0.42%
Post-Announcement Period				
1 February 2013 to Latest Practicable Date	88,220,837	4,411,042	0.57%	1.61%

Notes:

1. Source: Bloomberg.

2. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which excludes any trading day on which trading of the Shares on the Stock Exchange was suspended for the trading day.

3. Based on 779,724,104 Shares in issue as at the Latest Practicable Date.

4. Based on 274,304,002 Shares held by the public Shareholders as at the Latest Practicable Date.

The average daily trading volume of the Shares in each month/period during the Pre-Announcement Period ranged from approximately 237,143 Shares to approximately 34,570,407 Shares, representing approximately 0.03% and approximately 4.43% respectively of the total number of the Shares in issue as at the Latest Practicable Date and approximately 0.09% and 12.60% respectively of the total number of Shares held by public Shareholders as at the Latest Practicable Date. We note that the unusually high average daily trading volume of the Shares recorded in June 2011 of approximately 34,570,407 Shares during the Pre-Announcement Period was mainly resulted from the Allegations Announcement in relation to the Sino-Forest Allegations published by the Company on 7 June 2011.

Trading volume of the Shares increased to 39,905,375 Shares on 1 February 2013, the first full trading day following the publication of the Announcement. Trading volume of the Shares decreased thereafter, with an average daily trading volume of approximately 4,411,042 Shares, representing approximately 0.57% of the total number of Shares in issue as at the Latest Practicable Date and approximately 1.61% of the total number of Shares held by the public as at the Latest Practicable Date. The trading volume of the Shares on the Latest Practicable Date amounted to 928,425 Shares, representing approximately 0.12% of the total number of Shares in issue as at the Latest Practicable Date and approximately 0.34% of the total number of Shares held by the public Shareholders as at the Latest Practicable Date.

As illustrated in the data set out in the table above, the overall liquidity of the Shares during the Review Period was generally low. Independent Shareholders who wish to realise part or all of their investments in the Shares through disposal in the market, especially those with large block of Shares, should note that there may not be sufficient trading volume to absorb the amount of Shares intended to be sold without exerting significant downward pressure on the price of Shares.

2.3 Comparison with comparable companies

The Group is principally engaged in log harvesting, timber processing, marketing and sales of logs and timber products. In assessing the fairness and reasonableness of the Share Offer Price, we have attempted to compare the pricing ratios represented by the Share Offer Price against the market valuation of other listed companies in Hong Kong which are principally engaged in businesses similar to that of the Group. In general, in assessing whether a business segment is principal to a company, we consider that it is a justifiable basis to make reference to the revenue generated from a business segment which contributes more than half of the total revenue of a company based on the latest available financial statements. As the Company has recorded net losses for FY2011 as extracted from the Annual Report, only the price-to-book ratio ("**P/B ratio(s)**") has been used in the analysis. We have, based on the information available from the website of the Stock Exchange and Bloomberg, identified the following 3 comparables (the "**Comparable Companies**"), being an exhaustive list of companies listed on the Stock Exchange (both the Growth Enterprise Market and the Main Board) and principally engaged in businesses similar to that of the Group. We note that the business models and the products of the Comparable Companies and their geographical location of business operation may not be exactly identical to those of the Group, but we consider that they are relevant and would have reflected the market's collective valuation for the similar nature of business conducted by the Group. The list of the aforesaid Comparable Companies and their respective P/B ratios are set out below.

Stock code	**Company name**	**Principal business**	**Market capitalisation** *(HK$ million)*	**P/B ratio** *(times)* *(Note 1)*
930	China Forestry Holdings Co., Ltd. *(Note 2)*	Management of forests and sale of timber logs in China.	8,952	3.05
1228	Superb Summit International Timber Co. Ltd.	Exploitation and management of timber resources in China; marketing and sales of a wide range of timber products.	2,032	0.60
8186	China Asean Resources Ltd.	Wood products manufacturing and plantation, coal logistics and trading, design and manufacture of plastic and wooden household products.	210	0.20

For the Comparable Companies:

Stock code	Company name	Principal business	Market capitalisation *(HK$ million)*	P/B ratio *(times)* *(Note 3)*
			minimum	0.20
			maximum	3.05
94	The Company	Log harvesting, timber processing, marketing and sales of logs and timber products.	554	0. 43

Source: the Stock Exchange's website (www.hkex.com.hk) and Bloomberg

Notes:

1. P/B ratios of the Comparable Companies are calculated based on their respective closing prices as at the Latest Practicable Date and the net assets attributable to the shareholders of the Comparable Companies as extracted from their respective latest published annual or interim reports divided by their total number of issued shares as at the Latest Practicable Date.

2. The trading of shares of China Forestry Holdings Co., Ltd. has been suspended since 26 January 2011. This was the last share price of the shares of China Forestry Holdings Co., Ltd. on 26 January 2011.

3. Calculated based on the Share Offer Price and the unaudited consolidated net assets attributable to the Shareholders as at 30 June 2012 as extracted from the Interim Report divided by the total number of issued Shares as at the Latest Practicable Date.

Given that the shares of China Forestry Holdings Co., Ltd. have been suspended for trading for a certain period of time, the P/B ratio calculated based on the price of the shares immediately before suspension of trading may not provide a good reference. The P/B ratio of the Company as implied by the Share Offer Price of approximately 0.43 times is lower than the P/B ratio of Superb Summit International Timber Co. Ltd. of approximately 0.60 times and higher than the P/B ratio of China Asean Resources Ltd. of approximately 0.20 times.

2.4 Comparison with privatisation precedents

As noted from the Offer Document, if, within four months after making of the Share Offer, the Offeror together with other members of the Offeror Group acquires not less than nine-tenths in value of the Offer Shares from Shareholders representing three-fourths in number of the holders of Offer Shares, the Offeror intends to exercise any rights it may have under Section 102 of the Companies Act and in accordance with Rule 2.11 of the Takeovers Code to proceed to the compulsory acquisition of those Offer Shares not acquired by the Offeror pursuant to the Share Offer. Accordingly, for the purpose of assessing the Share Offer Price, we have also identified from publicly available information on the website of the Stock Exchange an exhaustive list of privatisation precedents (the "**Privatisation Precedents**") that (i) were announced since 1 January 2011 and up to the Latest Practicable Date; and (ii) have been successfully completed on or before the Latest Practicable Date. Although the subject companies of the Privatisation Precedents are principally engaged in different nature of businesses than that of the Group (except for Samling Global Ltd. ("SGL")), we consider that this analysis provides additional reference as to premium/ discount of prices for privatisation over/to the then prevailing market prices and book values of the relevant companies prior to the initial announcement of the privatisation proposals. Set out in the following table are the details of the Privatisation Precedents for reference to the Independent Shareholders.

				Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of offer/privatisation proposal					
Date of initial announcement	**Company**	**Stock code**	**Principal activities**	**Last Trading Day**	**30 trading days**	**60 trading days**	**90 trading days**	**180 trading days**	**P/B ratio** *(Note 3)*
21-Feb-12	Alibaba.com Limited	1688	Provision of software, technology and other services on online business-to-business marketplaces	45.9%	58.8%	60.4%	59.3%	42.0%	7.56
30-Jan-12	Samling Global Ltd.	3938	Sale of timber logs from concession and tree plantation areas, the manufacturing and sale of plywood and veneer, the provision of upstream support, and the manufacturing and sale of timber related products	102.7%	102.7%	93.4%	80.5%	21.6%	0.69
18-Jul-11	Cosway Corporation Ltd.	288	Direct sales of consumer products, property investment and investment holding	34.2%	45.1%	35.6%	32.9%	23.8%	6.37
19-Dec-11	Hang Ten Group Holdings Ltd.	448	Design, marketing and retail and wholesale of apparel and accessories under various brand names and licensing of its proprietary trade mark and associated mark	58.8%	54.3%	64.9%	60.4%	40.4%	2.77
19-Oct-11	Zhengzhou China Resources Gas Co. Ltd. *(Note 1)*	3928	Sales of natural gas, pressure control equipment and gas appliances, the construction of gas pipelines and the provision of renovation services of gas pipelines	45.8%	38.4%	28.2%	22.8%	10.9%	1.35
8-Aug-11	HannStar Board International Holdings Ltd.	667	Manufacturing, sales and trading of printed circuit boards	47.1%	51.8%	56.8%	48.0%	23.8%	0.57

Date of initial announcement	Company	Stock code	Principal activities	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of offer/privatisation proposal Last Trading Day	30 trading days	60 trading days	90 trading days	180 trading days	P/B ratio *(Note 3)*
14-Jul-11	International Mining Machinery Holdings Ltd.	1683	Design, manufacture and sale of underground longwall coal mining equipment in China, including roadheaders, shearers, armoured-face conveyors and related products and electric control systems	29.8%	15.8%	10.5%	16.3%	23.8%	3.33
30-Jun-11	Schramm Holding AG	955	Provision of technical coatings solutions in automotive and general industry coatings, coil coatings (for pre-coated metals) and electrical insulation paints and varnishes sectors	163.2%	174.5%	194.6%	195.2%	196.8%	2.77
30-Jun-11	China Resources Microelectronics Ltd. *(Note 1)*	597	Engaged in activities cover open foundry, integrated circuits design and testing and packaging as well as discrete devices businesses	43.3%	29.7%	24.4%	21.8%	27.5%	1.16
26-Apr-11	Little Sheep Group Ltd.	968	Operation of Chinese hot pot restaurants, the provision of catering services and the sale of related food products in Mainland China, Hong Kong and Macau	30.0%	29.6%	33.0%	32.3%	30.8%	4.94
20-Jan-11	Shanghai Forte Land Co. Ltd.	2337	Property development	25.4%	34.3%	40.0%	43.0%	52.4%	1.08
10-Jan-11	Fubon Bank (Hong Kong) Ltd. *(Note 2)*	636	Provision of a range of banking, financial and related services	37.6%	43.2%	41.0%	39.3%	45.9%	1.46
	Mean			**55.3%**	**56.5%**	**56.9%**	**54.3%**	**45.0%**	**2.84**
	Min			**25.4%**	**15.8%**	**10.5%**	**16.3%**	**10.9%**	**0.57**
	Max			**163.2%**	**174.5%**	**194.6%**	**195.2%**	**196.8%**	**7.56**
31-Jan-13	**The Company**	**94**	Log harvesting, timber processing, marketing and sales of logs and timber products	**(1.7)%**	**1.3%**	**4.3%**	**6.8%**	**16.9%**	**0.43**

Source: the Stock Exchange's website (www.hkex.com.hk) and Bloomberg

Notes:

1. The offer in the privatisation proposal of the respective company consisted of cash offer or share exchange offer. The above computation was based on the cash offer only.

2. The offer price of the privatisation proposal of the company was revised upwards after the first announcement for privatisation. The above computation was based on the revised offer price.

3. P/B ratios of the Privatisation Precedents are calculated based on their respective offer/cancellation price and the net assets attributable to the shareholders of the relevant listed companies in Hong Kong as extracted from their respective latest published annual or interim reports divided by their total number of issued shares as at the date of the initial announcement of offer/privatisation, based on the exchange rates as published on Bloomberg on the respective ending dates of the accounting periods.

As noted from the above, the offer/cancellation prices of successful Privatisation Precedents during the period reviewed were all at certain premium over their respective closing price or average closing price (as the case may be) of last trading day, 30 trading days, 60 trading days, 90 trading days and 180 trading days immediately preceding the initial announcement of the privatisation proposals. Except that the premium of the Share Offer Price over 180-trading day average price is higher than the lowest end of those of the Privatisation Precedents (but still lower than the average), the premium of the Share Offer Price over 30- trading day, 60- trading day, 90-trading day average prices fall below the lowest end of those of the Privatisation Precedents and the Share Offer Price represents a discount of approximately 1.7% to the closing price of the Shares at the Last Trading Day and a discount of approximately 17.1% to the closing price of the Shares at the Latest Practicable Date. Regarding the comparison against book value, the P/B ratio of approximately 0.43 times, represented by the Share Offer Price, is the lowest compared to those of the Privatisation Precedents. Having considered that all the Privatisation Precedents were offers made to the shareholders for cash or shares of other listed companies in Hong Kong to exit their respective investments, we consider that the Privatisation Precedents provide general references to the Independent Shareholders as to the range of premium/discount of other offer/privatisation proposals over/to their respective net assets and average share price prior to the offer/privatisation announcement as represented by their respective offer/cancellation price. It should be noted that the Privatisation Precedents were conducted under various market conditions and the companies involved are engaged in a variety of industry sectors (except for SGL). Accordingly, the premiums of offer/cancellation price of the Privatisation Precedents may be affected by factors different from those applying to the Share Offer.

Among the Privatisation Precedents, SGL was, prior to its privatisation, principally engaged in the sale of timber logs from concession and tree plantation areas, the manufacturing and sale of plywood and veneer, the provision of upstream support, and the manufacturing and sale of timber related products, which were similar to that of the Company. As noted from the above, the premium of cancellation price of SGL over the closing/average prices of all reviewed periods and P/B ratio as represented by the cancellation price of SGL are better than those as represented by the Share Offer Price.

3. Background of the Offeror and its intention relating to the Group

As stated in the Offer Document, the Offeror is a company newly incorporated in the Cayman Islands pursuant to the Plan for the purpose of receiving the transfer of certain assets of Sino-Forest. Save for taking transfer of such assets in accordance with the Plan, the Offeror has not traded since its incorporation. The Offeror is a direct, wholly-owned subsidiary of Emerald Plantation Holdings Limited ("**EPHL**"), which is also a company newly incorporated in the Cayman Islands pursuant to the Plan. EPHL is, on implementation of the Plan, the ultimate holding company of the Offeror. The shareholders of EPHL comprise the former holders of the certain notes issued by Sino-Forest (as detailed in the Offer Document) and other creditors of Sino-Forest recognised in accordance with the Plan. No shareholder of EPHL is expected to hold 30% or more of the voting rights of EPHL.

According to the Offer Document, if, within four months after making of the Share Offer, the Offeror together with other members of the Offeror Group acquires not less than nine-tenths in value of the Offer Shares from Shareholders representing three-fourths in number of the holders of Offer Shares, the Offeror intends to exercise any rights it may have under Section 102 of the Companies Act and in accordance with Rule 2.11 of the Takeovers Code to proceed to the Compulsory Acquisition of those Offer Shares not acquired by the Offeror pursuant to the Share Offer.

It was also stated in the Offer Document that if the Offeror does not achieve the level of acceptances required for Compulsory Acquisition, the directors of the Offeror intend that the listing status of the Company will be maintained and will undertake to the Stock Exchange to take appropriate steps following the close of the Offer to ensure that Rule 8.08 of the Listing Rules relating to the minimum prescribed percentage of Shares to be held by the public is complied with.

As noted from the Offer Document, the Offeror has not formed any views on whether major changes should be introduced to the business of the Company (including the redeployment of the fixed assets of the Company), or on the continued employment of the employees of the Group. The Offeror intends to review the business activities and management of the Group, with a view to evaluating its strategy on its equity investment in the Company and its financial support to the Group. This review, which is expected to continue after closing of the Offers, may or may not result in the Offeror changing its strategy with respect to the Group. No assurance is given by the Offeror that it will not seek to introduce changes to the business or management of the Group post review. Changes to the Group, if any, will be made in accordance with the applicable laws and the Listing Rules. The Offeror has made no decision in relation to appointments to and removals from the Board and any such change will only take effect in accordance with the requirements of the Takeovers Code and the publication requirement under the Listing Rules to inform the public accordingly.

Furthermore, it was stated in the Offer Document that EPHL continues to evaluate its strategic options to realise value for its shareholders and is in the preliminary stages of soliciting interest in the Offeror from possibly interested parties as part of its endeavour to assess its strategic options, which include a possible sale or sales of all or any of its assets including a sale of the Offeror or other companies or assets of the Offeror Group. Such sale may or may not affect the interests in Shares and give rise to an obligation on any purchaser to make a mandatory general offer to Shareholders under the Takeovers Code. Any such sale transactions, including a possible transaction affecting interests in Shares, may or may not proceed and is speculative.

Based on the above, it is uncertain whether the Offeror would make any change or not to the business or management of the Group which may have no, positive or negative impact to the prospect of the Group.

4. Other consideration - Compulsory Acquisition and possible withdrawal from listing or maintaining the listing status of the Company

The Independent Shareholders should note that if the level of acceptances of the Share Offer reaches the prescribed level under the Companies Act and Rule 2.11 of the Takeovers Code permits a Compulsory Acquisition and if the Offeror proceeds with the exercise of such compulsory acquisition rights and privatisation of the Company, Shares held by the Independent Shareholders who have not accepted the Share Offer will be subject to compulsory purchase on exercise of the compulsory acquisition rights by the Offeror. The Company will apply for the withdrawal of listing of the Shares from the Stock Exchange pursuant to Rule 6.15 of the Listing Rules and dealings in the Shares will be suspended from the close of the Offers up to the withdrawal of listing of the Shares from the Stock Exchange.

In the event that the Offeror does not effect the Compulsory Acquisition, whether by reason of not having acquired the prescribed percentage as required under the Companies Act or otherwise, the Offeror may take such steps as are necessary to ensure, or procure the Company to take such steps as are necessary to ensure, that the Company maintains an adequate public float so as to comply with the applicable requirements of the Listing Rules. However, Independent Shareholders should note that upon the close of the Offers, there may be less than 25% of the Shares are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange may exercise its discretion to suspend trading in the Shares until a level of sufficient public float is attained. The Company will then be required to place down some of the Shares to maintain the minimum public float and there remains a possibility that the Offeror may or may not be able to do so without selling the Shares at a discount to the Share Offer Price, which may indirectly exert a downwards pressure on the price of the Share.

Given that (i) the Group may have financial distress if the Group cannot seek for the Offeror's agreement to extend the repayment date of the Holding Company Loan and cannot obtain other financial resources to meet with its repayment obligation; and (ii) it is uncertain whether the Offeror would make any change or not to the business or management of the Group which may have no, positive or negative impact to the prospect of the Group, the Share Offer may represent an exit option for the Independent Shareholders. Accordingly, we consider the Share Offer is fair and reasonable and would recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer in this regard.

Despite this, the Shares have been traded at or above the Share Offer Price during the Post-Announcement Period and the Independent Shareholders are reminded to closely monitor the stock market and the trading price and liquidity of the Shares during the Offer Period and shall, having regard to their own circumstances, consider selling their Shares in the open market instead of accepting the Share Offer if the net proceeds from such disposal of the Shares would be higher than the proceeds from accepting the Share Offer. Those Independent Shareholders who wish to retain some or all of their investments in the Shares and/or are confident in the future prospect of the Group or otherwise are reminded to closely monitor the development of the Group and any announcement of the Company in this regard.

II. The Option Offer

As advised by the Directors, as at the Latest Practicable Date, the Company had 25,217,070 outstanding Options entitling the holders of the Options thereof to subscribe for an aggregate of 25,217,070 Shares with exercise prices ranging from HK$0.501 to HK$2.50 per Share. Acceptance of the Option Offer by the holders of the outstanding Options will result in the cancellation of those outstanding Options, together with all rights attaching thereto. The details of the offer price for cancellation of each Option (**"Option Offer Price"**) as extracted from the Offer Document and the number of outstanding Options at respective exercise price as at the Latest Practicable Date are set out below.

Exercise price	**Option Offer Price**
HK$0.501 (4,335,000 options in total)	HK$0.079 in cash.
HK$1.266 (nil option in total)	HK$0.001 in cash.
HK$1.65 (9,750,000 options in total)	HK$0.001 in cash.
HK$1.952 (nil option in total)	HK$0.001 in cash.
HK$2.18 (6,576,000 options in total)	HK$0.001 in cash.
HK$2.50 (4,556,070 options in total)	HK$0.001 in cash.
HK$2.71 (nil option in total)	HK$0.001 in cash.
HK$2.93 (nil option in total)	HK$0.001 in cash.

For assessing the terms of the Option Offer, we envisage that the adoption of a "see-through" price (representing the difference between the Share Offer Price and any given exercise price of the convertible instrument) is commonly regarded as the minimum offer price for any convertible instrument in conjunction with a general offer for ordinary shares. We note that the Option Offer Price for the (i) in-the-money Option represents the difference between the Share Offer Price and the exercise price of the in-the-money Option; and (ii) out-of-the-money Option is made at a nominal price of HK$0.001, for cancellation of the Options. In this respect, we consider that the basis of determining the Option Offer Price is acceptable.

Given our view that the Share Offer may represent an exit option for the Independent Shareholders, we consider that the Option Offer may represent an exit option for the holders of the Options as well. Accordingly, we consider the Option Offer is fair and reasonable and would recommend the Independent Board Committee to advise the holders of the Options to accept the Option Offer.

In any event, the holders of the Options are advised to exercise their Options and dispose of the Shares so converted in the open market if the market price per Share exceeds their respective exercise price (and hence becoming or restoring to be in-the-money) during the Offer Period and if the net proceeds from such actions (after deducting all transaction costs) would exceed the net amount receivable under the Option Offer. The holders of the Options should exercise caution in doing so and closely monitor the stock market and trading price and liquidity of the Shares. Furthermore, the holders of the Options are reminded that, in accordance with the terms and conditions of the Share Option Schemes and as advised by the management of the Company, those outstanding Options not exercised within 14 days after the date on which the Share Offer becomes or is declared unconditional in all respects will automatically lapse.

III. The Convertible Notes Offer

As advised by the Directors, as at the Latest Practicable Date, there were outstanding Convertible Notes, being the US dollar denominated convertible notes in the principal amount of US$17 million (equivalent to approximately HK$132.2 million) which are convertible into an aggregate of 66,012,987 Shares (representing approximately 8.5% of the issued Shares as at the Latest Practicable Date) at HK$2.002 per Share. According to the Offer Document, the offer price under the Convertible Notes Offer is HK$2.252 for each US$1.00 face value of the Convertible Notes determined as the "see-through" consideration for each Convertible Note being the number of Shares into which the Convertible Note is convertible multiplied by the Share Offer Price. The Convertible Notes are in aggregate convertible into 66,012,987 Shares which when multiplied by the Share Offer Price of HK$0.58 per Share values the total Convertible Notes Offer at HK$38,287,533, which is far below the outstanding principal amount of the Convertible Notes of US$17 million (equivalent to approximately HK$132.2 million).

Pursuant to the terms and conditions of the Convertible Notes and as advised by the management of the Company, the holder of the Convertible Notes will be able to redeem all or some of the outstanding principal amount of the Convertible Notes on the third anniversary date (i.e. 17 August 2013) or the fourth anniversary date (i.e. 17 August 2014) or redeem full outstanding principal amount of the Convertible Notes on the maturity date of the Convertible

Notes (i.e. 17 August 2015) at redemption amount. Such redemption amount is the aggregate of (i) the outstanding principal amount to be redeemed/full outstanding principal amount upon maturity (as the case may be) and (ii) a further sum that will result in a compounded return of 10% per annum accrued from the date of completion of the issue of the Convertible Notes (i.e. 17 August 2010) up to but not including the date of redemption/maturity (as the case may be) on the outstanding principal amount to be redeemed/full outstanding principal amount upon maturity (as the case may be), inclusive of any interest received (at a coupon rate of 5% per annum). Such redemption amount represents a large premium to the total consideration for the Convertible Notes Offer as detailed above.

In addition, as stated in the Announcement and the Company's announcement dated 20 February 2013, the implementation of the Plan has already triggered the "Change of Control" provisions as set out in the terms and conditions of the Convertible Notes, under which the holder of the Convertible Notes has become entitled to require the Company to redeem the Convertible Notes in whole or in part of such outstanding Convertible Notes at any time prior to the maturity of the Convertible Notes. In accordance with the terms and conditions of the Convertible Notes and as advised by the management of the Company, the redemption amount is the higher of: (a) the aggregate amount of (i) the outstanding principal amount to be redeemed and (ii) a further sum that will result in a compounded return of 10% per annum accrued from the date of completion of the issue of the Convertible Notes (i.e. 17 August 2010) up to but not including the date falling on the third anniversary of such date on the outstanding principal amount to be redeemed, inclusive of any interest received; and (b) the aggregate amount of (i) the outstanding principal amount to be redeemed and (ii) a further sum that will result in a compounded return of 10% per annum accrued from the date of completion of the issue of the Convertible Notes (i.e. 17 August 2010) up to but not including the date of redemption on the outstanding principal amount to be redeemed, inclusive of any interest received. Such redemption amount represents a substantial premium to the total consideration for the Convertible Notes Offer as detailed above.

Based on the Group's latest available financial resources which, among others, include the Bank Loan Facilities, we do not consider that the Company would experience financial difficulty in meeting its obligations to redeem the Convertible Notes and/or pay interests thereon in accordance with the terms and conditions of the Convertible Notes. Accordingly, we consider the Convertible Notes Offer is not fair and reasonable so far as the holder of the Convertible Notes is concerned and we recommend the Independent Board Committee to advise the holder of the Convertible Notes not to accept the Convertible Notes Offer.

RECOMMENDATION ON THE SHARE OFFER, THE OPTION OFFER AND THE CONVERTIBLE NOTES OFFER

In the above sections, we note that:

(i) there was a slump in the closing price of the Shares since June 2011 mainly as a result of a report issued on a website by an organisation making certain allegations towards Sino-Forest, the Company's then ultimate controlling shareholder (as defined in the Listing Rules) and with concerns about the Company; the investigations made by the SFC into the Company which have subsequently been terminated; and certain press releases or announcements made by Sino-Forest regarding the restructuring plan with its creditors which involved the possible change in Sino-Forest's control of the Company before the publication of the Announcement;

(ii) the overall liquidity of the Shares during the Review Period was generally low;

(iii) there are three listed companies principally engaging in similar businesses as that of the Group while one of them has been suspended for trading for a certain period of time, and the P/B ratio implied by the Share Offer Price of approximately 0.43 times is within the range of the P/B ratios of the remaining two Comparable Companies of approximately 0.20 times and approximately 0.60 times;

(iv) the offer/cancellation prices of successful Privatisation Precedents during the period reviewed were all at certain premium over their respective closing price or average closing price (as the case may be) of last trading day, 30 trading days, 60 trading days, 90 trading days and 180 trading days immediately preceding the initial announcement of the privatisation proposals. Except that the premium of the Share Offer Price over 180-trading day average price is higher than the lowest end of those of the Privatisation Precedents (but still lower than the average), the premium of the Share Offer Price over 30- trading day, 60- trading day, 90-trading day average prices fall below the lowest end of those of the Privatisation Precedents and the Share Offer Price represents a discount of approximately 1.7% to the closing price of the Shares at the Last Trading Day and a discount of approximately 17.1% to the closing price of the Shares at the Latest Practicable Date;

(v) the P/B ratio of approximately 0.43 times, represented by the Share Offer Price, is the lowest compared to those of the Privatisation Precedents; and

(vi) among the Privatisation Precedents, SGL was, prior to its privatisation, principally engaged in the sale of timber logs from concession and tree plantation areas, the manufacturing and sale of plywood and veneer, the provision of upstream support, and the manufacturing and sale of timber related products, which were similar to that of the Company and the premium of cancellation price of SGL over the closing/average prices of all reviewed periods and P/B ratio as represented by the cancellation price of SGL are better than those as represented by the Share Offer Price.

However, given that (i) the Group may have financial distress if the Group cannot seek for the Offeror's agreement to extend the repayment date of the Holding Company Loan and cannot obtain other financial resources to meet with its repayment obligation; and (ii) it is uncertain whether the Offeror would make any change or not to the business or management of the Group which may have no, positive or negative impact to the prospect of the Group, the Share Offer may represent an exit option for the Independent Shareholders. Accordingly, we consider the Share Offer is fair and reasonable and would recommend the Independent Board Committee to advise the Independent Shareholders to accept the Share Offer in this regard.

Despite this, the Shares have been traded at or above the Share Offer Price during the Post-Announcement Period and the Independent Shareholders are reminded to closely monitor the stock market and the trading price and liquidity of the Shares during the Offer Period and shall, having regard to their own circumstances, consider selling their Shares in the open market instead of accepting the Share Offer if the net proceeds from such disposal of the Shares would be higher than the proceeds from accepting the Share Offer. Those Independent Shareholders who wish to retain some or all of their investments in the Shares and/or are confident in the future prospect of the Group or otherwise are reminded to closely monitor the development of the Group and any announcement of the Company in this regard.

For the Option Offer, we note that the Option Offer Price for the (i) in-the-money Option represents the difference between the Share Offer Price and the exercise price of the in-the-money Option; and (ii) out-of-the-money Option is made at a nominal price of HK$0.001, for cancellation of the Options. In this respect, we consider that the basis of determining the Option Offer Price is acceptable. Given our view that the Share Offer may represent an exit option for the Independent Shareholders, we consider that the Option Offer may represent an exit option for the holders of the Options as well. Accordingly, we consider that the Option Offer is fair and reasonable and would recommend the Independent Board Committee to advise the holders of the Options to accept the Option Offer.

For the Convertible Notes Offer, given that the respective redemption amount upon maturity of the Convertible Notes or upon exercise of the redemption rights by the holder of the Convertible Notes on the third or the fourth anniversary dates or upon occurrence of change of control event represents premium to the total consideration for the Convertible Notes Offer, we consider the Convertible Notes Offer is not fair and reasonable so far as the holder of the Convertible Notes is concerned and would recommend the Independent Board Committee to advise the holder of the Convertible Notes not to accept the Convertible Notes Offer.

Independent Shareholders, the holders of the Options and the Convertible Notes are reminded that their decisions to dispose or hold their investments or exercise their rights in the Shares, the Options or the Convertible Notes are subject to their individual circumstances and investment objectives and they are reminded to carefully (i) monitor the stock market and the trading price and liquidity of the Shares; (ii) consider the intention of the Offeror; (iii) evaluate the future prospect of the Group; and (iv) note the lapse of the Options in accordance with the terms and conditions of the Share Option Schemes. Independent Shareholders, the holders of the Options and the Convertible Notes should read carefully the procedures for accepting the Share Offer, the Option Offer and the Convertible Notes Offer as detailed in the Offer Document, the appendices to the Offer Document and the Forms of Acceptance, if they wish to accept the respective Offers.

Yours faithfully,
For and on behalf of
Halcyon Capital Limited

Derek C.O. Chan
Chairman

Terry Chu
Managing Director