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If you have sold or transferred all your shares in Omnicorp Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**1. CONNECTED TRANSACTION – ISSUE OF SUBSCRIPTION SHARES
TO A CONNECTED PERSON**

2. ISSUE OF NEW CONVERTIBLE NOTES

3. APPLICATION FOR WHITEWASH WAIVER

AND

4. NOTICE OF SGM

**Independent Financial Adviser to the Independent Board Committee and
Independent Shareholders**



A letter from the Board is set out on pages 6 to 27 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 28 to 29 of this circular.

A letter from Taifook Capital Limited, the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 39 of this circular.

A notice convening the SGM to be held at Boardrooms 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong, at 10:00 a.m. on Thursday, 29 July 2010 is set out on pages 109 to 111 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete the enclosed form of proxy and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

* For identification purpose only

13 July 2010

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

“acting in concert”	has the meaning ascribed thereto in the Code
“Announcement”	the announcement dated 22 June 2010 made by the Company in relation to (1) the issue of the Subscription Shares; (2) the issue of the New Convertible Notes; and (3) the application for the Whitewash Waiver
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday and a Sunday and a day on which a tropical cyclone warning number 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
“CN Completion”	completion of the issue of the New Convertible Notes
“CN Completion Date”	the fourteenth day (being a Business Day) following the date on which all the conditions precedent to the CN Completion (including the completion of the issue of the Subscription Shares pursuant to the Share Subscription Agreement but excluding the condition precedent relating to the accuracy of the Company’s warranties and the delivery of the opinion of the Company’s Bermudian counsel addressed to the CN Subscriber as to the Bermudian law) are fulfilled (or such other date as may be agreed in writing between the Company and the CN Subscriber)
“CN Material Adverse Change”	an event, circumstance, effect, occurrence or state of affairs or any combination thereof occurring which is, or is reasonably likely to be, materially adverse to the business, operations, assets, liabilities (including contingent liabilities), business or financial condition, results or prospects of the Group taken as a whole, excluding, in any such case, any event, circumstance, effect, occurrence or state of affairs or any combination thereof resulting from the matters which have been fairly disclosed by or on behalf of the Company to, and are in the knowledge of, Mr. David Van Oppen, Mr. Kenyon Lee and Mr. Jannal Lee on behalf of the CN Subscriber and provided further that such disclosure is in sufficient detail to enable the CN Subscriber to reasonably assess the impact of such matters on the Company and the Group

DEFINITIONS

“CN Redemption Amount”	an amount equivalent to the redemption amount for each New Convertible Note, which is the higher of: (a) the aggregate amount of (i) the principal amount and (ii) a further sum that will result in a compounded return of 10% per annum accrued from the CN Completion Date up to but not including the date falling on the third (3rd) anniversary of such date on the principal amount, inclusive of any Interest (as defined under the heading “The CN Subscription Agreement and Principal Terms of the New Convertible Notes” in the Letter from the Board in this circular) received; and (b) the aggregate amount of (i) the principal amount and (ii) a further sum that will result in a compounded return of 10% per annum accrued from the CN Completion Date up to but not including the date of redemption on its principal amount, inclusive of any Interest received
“CN Subscriber” or “Greater Sino Holdings Limited”	Greater Sino Holdings Limited, a company incorporated in the British Virgin Islands
“CN Subscription Agreement”	the subscription agreement dated 22 June 2010 entered into between the Company and the CN Subscriber in relation to the subscription of the New Convertible Notes
“CCASS”	Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited
“Code”	the Hong Kong Code on Takeovers and Mergers
“Company”	Omnicorp Limited 兩儀控股有限公司*, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange
“Completion”	the completion of the issue of the Subscription Shares pursuant to the Share Subscription Agreement
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Conversion Period”	the period commencing 6 months following the CN Completion Date and expiring on the Maturity Date (both days inclusive)
“Conversion Price”	HK\$2.002 per Conversion Share, subject to adjustments, pursuant to the terms and conditions of the New Convertible Notes

* For identification purpose only

DEFINITIONS

“Conversion Shares”	the Shares to be issued upon conversion of the New Convertible Notes
“Director(s)”	director(s) of the Company
“Event(s) of Default”	the event of defaults specified in the CN Subscription Agreement which entitle the CN Subscriber to demand immediate repayment of the New Convertible Notes
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegates
“Existing Convertible Bonds”	the outstanding 4% convertible bonds issued by the Company on 8 November 2007 and currently held by Sino-Forest, the Share Subscriber, Always Bright Limited and Broad Joy Holdings Limited (as supplemented by supplemental deed polls dated 7 May 2009 and 9 November 2009, respectively) in the principal amount of HK\$237,000,000
“GEMS”	General Enterprise Management Services (International) Limited
“Greenheart”	Greenheart Resources Holdings Limited, a company incorporated under the laws of the British Virgin Islands
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent board committee of the Board established to make a recommendation to the Independent Shareholders in respect of the Share Subscription and the Whitewash Waiver
“Independent Financial Adviser” or “Taifook”	Taifook Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Share Subscription Agreement and the Whitewash Waiver

DEFINITIONS

“Independent Shareholders”	Shareholders, other than (i) the Share Subscriber and persons acting in concert with it (including Sino-Forest) and (ii) those Shareholders who are involved in, or interested in, the Share Subscription and the Whitewash Waiver (including the CN Subscriber and GEMS (which held 7,000,000 Shares as at the Latest Practicable Date))
“Latest Practicable Date”	9 July 2010, being the latest practicable prior to the date of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Material Adverse Change”	an event, circumstance, effect, occurrence or state of affairs or any combination thereof occurring which is, or is reasonably likely to be, materially adverse to the business, operations, assets, liabilities (including contingent liabilities), business or financial condition, results or prospects of the Group taken as whole, excluding, in any such case, any event, circumstance, effect, occurrence or state of affairs or any combination thereof resulting from the matters which have been fairly disclosed by or on behalf of the Company to, and are in the knowledge of, Mr. Allen Chan and Mr. Judson Martin on behalf of the Share Subscriber and provided further that such disclosure is in sufficient detail to enable the Share Subscriber to reasonably assess the impact of such matters on the Company and the Group
“Maturity Date”	5 years from the CN Completion Date
“New Convertible Notes”	the new convertible note(s) in an aggregate principal amount of US\$25 million to be issued by the Company to the CN Subscriber pursuant to the CN Subscription Agreement
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting of the Shareholders to be convened and held to consider the matters set out in the section headed “SGM” in this circular
“Share Option(s)”	share options granted by the Company and outstanding, including the share options issued under the Share Option Scheme

DEFINITIONS

“Share Option Scheme”	the share option scheme of the Company adopted on 22 March 2002 to subscribe for Shares
“Share(s)”	the ordinary shares of a par value of HK\$0.01 each in the share capital of the Company and all other (if any) stock or shares from time to time and for the time being ranking pari passu therewith, and all other (if any) stock or shares resulting from any sub-division, consolidation or re-classification thereof
“Shareholder(s)”	holder(s) of the Shares from time to time
“Share Subscriber” or “Sino-Capital”	Sino-Capital Global Inc., a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of Sino-Forest
“Share Subscription”	the subscription of new Shares by the Share Subscriber pursuant to the terms of the Share Subscription Agreement
“Share Subscription Agreement”	the share subscription agreement dated 22 June 2010 entered into between the Company and the Share Subscriber in relation to the subscription of the Subscription Shares
“Sino-Forest”	Sino-Forest Corporation, a company incorporated under the laws of Canada and a substantial shareholder of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	HK\$1.82 per Subscription Share
“Subscription Shares”	230,000,000 new Shares of par value of HK\$0.01 to be subscribed for by the Share Subscriber and each a “Subscription Share”
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“US\$”	United States dollars, the lawful currency of the United States
“Whitewash Waiver”	the whitewash waiver pursuant to Note 1 on dispensations from Rule 26 of the Code in respect of any obligation of the Share Subscriber and any persons acting in concert with it to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by the Share Subscriber and any persons acting in concert with it which might otherwise arise as a result of the Share Subscriber subscribing for the Subscription Shares under the Share Subscription Agreement
“%”	per cent.

LETTER FROM THE BOARD



OMNICORP LIMITED

兩儀控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

Executive Directors:

Hui Tung Wah Samuel

Sung Yan Wai Petrus

Independent non-executive Directors:

Wong Kin Chi (Chairman)

Wong Che Keung Richard

Tong Yee Yung Joseph

Registered office:

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Principal place of business:

Suites 1801-03, 18/F.

Dah Sing Financial Centre

108 Gloucester Road

Wanchai, Hong Kong

13 July 2010

To the Shareholders

Dear Sir or Madam,

1. CONNECTED TRANSACTION – ISSUE OF SUBSCRIPTION SHARES TO A CONNECTED PERSON

2. ISSUE OF NEW CONVERTIBLE NOTES

3. APPLICATION FOR WHITEWASH WAIVER

AND

4. NOTICE OF SGM

INTRODUCTION

Reference is made to the announcement of the Company dated 22 June 2010 in relation to (1) the connected transaction comprising the proposed issue of the Subscription Shares to a connected person; (2) the proposed issue of New Convertible Notes; and (3) the application for the Whitewash Waiver.

* For identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with further details about (i) the Share Subscription Agreement; (ii) the CN Subscription Agreement; and (iii) the Whitewash Waiver. This circular also contains a letter from the Independent Board Committee and the recommendation from the Independent Financial Adviser on the terms of the Share Subscription Agreement and the Whitewash Waiver, together with a notice convening the SGM.

THE SHARE SUBSCRIPTION AGREEMENT

The principal terms of the Share Subscription Agreement are summarised below.

Date:	22 June 2010
Issuer:	The Company
Share Subscriber:	Sino-Capital
Total Consideration:	HK\$418.6 million
Subscription Shares:	230,000,000 Subscription Shares, representing approximately 72.83% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 42.14% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.
Listing:	An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares. All necessary arrangements will be made for the Subscription Shares to be admitted into CCASS.
Subscription Price:	HK\$1.82 per Subscription Share, which represents: (i) a premium of approximately 1.68% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange on 21 June 2010, being the last trading day prior to the date of the Announcement; (ii) a premium of approximately 1.11% over the average closing price of HK\$1.80 per Share as quoted on the Stock Exchange for the last five trading days immediately preceding the date of the Announcement; (iii) a discount of approximately 0.55% over the average closing price of HK\$1.83 per Share as quoted on the Stock Exchange for the last ten trading days immediately preceding the date of the Announcement;

LETTER FROM THE BOARD

- (iv) a discount of approximately 16.89% over the closing price of HK\$2.19 per share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a premium of approximately 143% over the Group's audited consolidated net asset value per Share as at 31 December 2009.

Ranking:

The Subscription Shares are to be issued cum-dividend and when issued, shall rank pari passu in all respects among themselves and with all existing Shares in issue on the date of issue and allotment of the Subscription Shares, including the right to receive all dividends, bonuses and distributions declared, made or paid by the Company on or after the date of the issue and allotment of the Subscription Shares.

Conditions precedent to the Completion

Completion is subject to the satisfaction of the following conditions precedent:

- (a) the passing of the necessary resolutions by the Independent Shareholders at the SGM approving the Share Subscription Agreement, the Whitewash Waiver and the issue and allotment of the Subscription Shares to the Share Subscriber pursuant to the terms and conditions of the Share Subscription Agreement;
- (b) the Executive having granted the Whitewash Waiver;
- (c) the Stock Exchange having granted the listing of, and permission to deal in, all of the Subscription Shares (either unconditionally or subject to conditions) and such listing and permission not subsequently being revoked prior to the issue of the Subscription Shares; and
- (d) obtaining any other waivers, consents, authorizations and approvals which are required from the relevant governmental, statutory or regulatory authorities in Hong Kong and Bermuda to effect the execution, completion and performance of the obligations and other terms under the Share Subscription Agreement.

If any of the above conditions precedent cannot be fulfilled (or, in respect of condition precedent (c) only, is not otherwise waived by the Share Subscriber in accordance with the terms of the Share Subscription Agreement) by 30 September 2010 (or such later date as the Company and the Share Subscriber may agree in writing), the Share Subscription Agreement will terminate, lapse and become null and void, and the Company and the Share Subscriber will be released from all obligations thereunder, save for the liabilities of any antecedent breaches thereof. As at the Latest Practicable Date, none of the above conditions had been fulfilled.

LETTER FROM THE BOARD

Termination

If a Material Adverse Change occurs prior to Completion of the Share Subscription, the Share Subscriber may, without liability to the Company, elect not to complete the Share Subscription by giving notice in writing to the Company before 12:00 p.m. (Hong Kong time) on the date of Completion of the Share Subscription. Upon service of such notice, the Share Subscription Agreement shall terminate.

Completion

Completion is scheduled to take place on the third Business Day following the date on which all the conditions precedent as described above have been fulfilled or waived (in respect of condition precedent (c), as described above, only) in accordance with the Share Subscription Agreement (or such other date as the Company and the Share Subscriber may agree).

BASIS FOR DETERMINING THE SUBSCRIPTION PRICE

The Subscription Price was arrived at after arm's length negotiation between the Company and the Share Subscriber with reference to the prevailing market price, the recent trading volume of the Shares and the business prospects of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SHARE SUBSCRIPTION AGREEMENT

The principal activities of the Group comprise log harvesting, lumber processing, marketing and sales of logs and lumber products.

As disclosed in the Company's annual report of 2009, the Company has budgeted further capital investments, including, but not limited to, further investment in logging and transportation equipment, together with the planned new sawmill and better infrastructure of the Group's camp site and other operating locations to meet the strong demand of its forestry and timber products. In addition to organic growth, the Group is also actively exploring investment opportunities with a vision to build the Group into a world leading hardwood supplier.

In view of the Company's existing capital structure, the Directors consider that the Share Subscription will enable the Company to strengthen its capital base and raise long term equity funds for further expansion and development of the Group's existing and new business activities and as general working capital.

Sino-Forest has been a long-term strategic shareholder in the Company. The interests held by the Share Subscriber and persons acting in concert with it (including Sino-Forest), will increase further to 53.66% of the entire issued share capital of the Company as enlarged by the issue of the Subscription Shares upon Completion (assuming no conversion of the Existing Convertible Bonds). The Share Subscriber also holds 39.61% of the issued share capital of Greenheart, an operating arm of the Company, holding and operating approximately 178,000 hectares of forest concessions in Suriname. The Directors consider that the increased shareholding by Sino-Capital in the Company will strengthen the relationship between the Company and Sino-Forest, accelerate the Company's expansion plan in tropical hardwood

LETTER FROM THE BOARD

business, enable the Company to leverage Sino-Forest's international distribution channels, experienced financial and operating management, research and development knowledge and its two decades of successful and sustainable harvesting expertise to accelerate the Company's development. Moreover, the Share Subscription will also reflect the long-term commitment and support of Sino-Forest to the Company.

The Directors (excluding the independent non-executive Directors whose views are disclosed in the Letter from the Independent Board Committee in this circular) are of the view that the terms of the Share Subscription Agreement are normal commercial terms following arm's length negotiation between the Company and the Share Subscriber and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Share Subscriber is a wholly-owned subsidiary of Sino-Forest which is in turn a substantial shareholder of the Company. They together held approximately 19.91% of the existing issued share capital of the Company and approximately 89.59% of the Existing Convertible Bonds as at the Latest Practicable Date. Assuming full conversion of the Existing Convertible Bonds, Sino-Forest and the Share Subscriber would own in aggregate approximately 40.06% of the issued share capital of the Company as at the Latest Practicable Date. Therefore the Share Subscriber is a connected person of the Company for the purpose of the Listing Rules. Accordingly, the Share Subscription constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

APPLICATION FOR THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Share Subscriber and persons acting in concert with it (including Sino-Forest) held an aggregate of 62,860,000 Shares, representing approximately 19.91% of the entire issued share capital of the Company. Assuming no further Shares will be issued by the Company prior to Completion, the interests held by the Share Subscriber and persons acting in concert with it (including Sino-Forest) will increase from approximately 19.91% to 53.66% of the entire issued share capital of the Company as enlarged by the issue of the Subscription Shares upon Completion.

Accordingly, the Share Subscriber and persons acting in concert with it would, unless a waiver from strict compliance with Rule 26.1 of the Code has been obtained from the Executive, be obliged to make a mandatory general offer for all the issued Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Code as a result of Completion.

The Share Subscriber has applied to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Code and the Executive has indicated that the Whitewash Waiver will be granted. The Whitewash Waiver, if granted by the Executive, would be conditional upon, among other things, the approval of the Independent Shareholders taken by way of poll at the SGM.

LETTER FROM THE BOARD

If the Whitewash Waiver is not obtained, the Share Subscription will lapse and will not proceed.

After Completion, the Share Subscriber and persons acting in concert with it will hold more than 50% of the issued ordinary share capital of the Company. As such, any further acquisition of interests in the Company by the Share Subscriber and persons acting in concert with it would not be subject to the obligation to make a general offer under the Code.

THE CN SUBSCRIPTION AGREEMENT AND PRINCIPAL TERMS OF THE NEW CONVERTIBLE NOTES

The principal terms of the CN Subscription Agreement and New Convertible Notes are summarised below.

Date:	22 June 2010
Issuer:	The Company
CN Subscriber:	Greater Sino Holdings Limited
Total Principal Amount:	US\$25 million
Total Consideration:	US\$24.75 million
Issue price:	US\$99,000 per New Convertible Note
Form of New Convertible Notes and denomination:	The New Convertible Notes will be in registered form and in denomination of US\$100,000 each and integral multiples thereof.
Status:	The New Convertible Notes constitute direct, unsubordinated, unconditional and unsecured obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves. The payment obligations of the Company under the New Convertible Notes shall, save for such exceptions as may be provided by mandatory provisions of applicable laws and subject to applicable terms and conditions of the New Convertible Notes, at all times rank at least equally with all of its other present and future direct, unsubordinated, unconditional and unsecured obligations.
Interest:	5% per annum payable semi-annually in arrear
Maturity Date:	5 years from the CN Completion Date
Conversion Rights:	The holders of the New Convertible Notes will have the right to convert the principal amount of the New Convertible Notes in minimum amounts of US\$100,000 into Conversion Shares at the then applicable Conversion Price at any time during the Conversion Period.

LETTER FROM THE BOARD

However, no conversion will take place if, among other things, and to the extent that, immediately following the conversion, the Company will be unable to meet the public float requirement under the Listing Rules.

Conversion Shares:

Assuming the conversion rights attaching to all New Convertible Notes are exercised in full at the Conversion Price of HK\$2.002 per Conversion Share, a maximum of 97,077,922 Conversion Shares will be allotted and issued, representing approximately 30.74% of the entire issued share capital of the Company as at the Latest Practicable Date and approximately 15.10% of the entire issued share capital of the Company as enlarged by the Subscription Shares and the Conversion Shares.

Conversion Price:

HK\$2.002 per Conversion Share, subject to adjustments for the anti-dilution provisions mentioned below. The terms and conditions of the New Convertible Notes contain provisions concerning adjustment to the Conversion Price in respect of events which have a diluting effect on the issued share capital of the Company above specified thresholds. These anti-dilution events include consolidation, reclassification or sub-division of Shares, capitalisation of profits or reserves, capital distribution, rights issue of Shares or warrants or options over Shares, issue of exchangeable or convertible securities, issue wholly for cash of any Shares, modification of rights attached to convertible or exchangeable securities, offers to shareholders for acquisition of Shares.

The Conversion Price represents:

- i. a premium of approximately 11.84% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange on 21 June 2010, being the last trading day prior to the date of the Announcement;
- ii. a premium of approximately 11.22% over the average closing price of HK\$1.80 per Share as quoted on the Stock Exchange for the last five trading days immediately preceding the date of the Announcement;
- iii. a premium of approximately 9.40% over the average closing price of HK\$1.83 per Share as quoted on the Stock Exchange for the last ten trading days immediately preceding the date of the Announcement;
- iv. a discount of approximately 8.58% over the closing price of HK\$2.19 per share as quoted on the Stock Exchange on the Latest Practicable Date; and

LETTER FROM THE BOARD

- v. a premium of approximately 166.93% over the Group's audited consolidated net asset value per Share as at 31 December 2009.

Conversion Period: Commencing 6 months following the CN Completion Date and expiring on the Maturity Date (both days inclusive).

Redemption at Maturity: Unless previously converted, or redeemed and cancelled, the Company shall repay the then outstanding New Convertible Notes in full on the Maturity Date at the redemption amount equal to (a) the principal amount and (b) a further sum that will result in a compounded return of 10% per annum accrued from the CN Completion Date up to but not including the Maturity Date on the principal amount, inclusive of any Interest received.

Redemption at the option of the Noteholders: Each noteholder may at its option require the Company to redeem all or some of the New Convertible Notes held by it on each of the dates falling on the third (3rd) anniversary and on the fourth (4th) anniversary of the CN Completion Date (each such date, an “**Optional Redemption Date**”), at the redemption amount equal to (a) the principal amount and (b) a further sum that will result in a compounded return of 10% per annum accrued from the CN Completion Date up to but not including the Optional Redemption Date on its principal amount, inclusive of any Interest received, by giving not more than 90 days and not less than 60 days notice to the Company prior to the relevant Optional Redemption Date.

Redemption upon a Change of Control: Each noteholder may at its option require the Company to redeem in whole or in part the New Convertible Notes held by it at the CN Redemption Amount if:

- i. Sino-Forest and its subsidiaries as a group disposes, directly or indirectly, any beneficial interest in shareholding in the Company to the effect that such group ceases to be the single largest Shareholder which owns more than 30% of the then issued share capital of the Company for more than 30 consecutive days; or
- ii. the Company consolidates with or merges into or sells or transfers all or substantially all of the Company's assets to any other person, unless the consolidation, merger, sale or transfer will not result in any person or persons, acting together acquiring control over the Company or the successor entity.

LETTER FROM THE BOARD

**Mandatory Conversion
at the option of
the Company:**

On or at any time prior to the Maturity Date, the Company may mandatorily convert the New Conversion Notes in part (subject to a minimum mandatory conversion amount of US\$1,000,000 in principal amount of New Conversion Notes and integral multiples thereof per conversion, up to an aggregate of US\$12,500,000 in principal amount of New Conversion Notes) into Shares at the prevailing Conversion Price, provided that no such conversion may be made unless (i) both the volume weighted average price of the Shares traded on the Stock Exchange for the 60 trading days preceding the date of such notice and the seven trading days preceding the date of such notice are more than two times the amount of the Conversion Price then in effect and (ii) the monthly average volume of the Shares traded on the Stock Exchange over the two months prior to the date of such notice exceeds the number of Shares to be issued on such conversion of such New Convertible Notes the subject of the notice at the Conversion Price then in effect. Once the Company has exercised a mandatory conversion, the Company shall not be entitled to exercise the mandatory conversion right again until three months after the Conversion Date of the last mandatory conversion.

Transferability:

Other than during closed periods and subject to applicable laws and regulations, the noteholders are entitled to transfer the New Convertible Notes in whole multiples of US\$100,000 to a subsidiary of the CN Subscriber, the holding company of the CN Subscriber as at the date of the CN Subscription Agreement, a subsidiary of such holding company or a subsidiary of such subsidiary.

The CN Subscriber has undertaken in the CN Subscription Agreement that, subject to CN Completion, it shall not, directly or indirectly, assign or transfer, in whole or in part, the New Convertible Notes to any third parties without the prior written consent of the Company, except it shall be permitted to assign or transfer any of the New Convertible Notes to any of its subsidiaries, its holding company as at the date of the CN Subscription Agreement or subsidiaries of its holding company or any subsidiary of such subsidiaries.

Voting:

Holders of the New Convertible Notes will not be entitled to attend or vote at any meetings of the Company by reason only of its being a noteholder.

Listing:

No application will be made for the listing of the New Convertible Notes. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares that may be allotted and issued upon conversion of the New Convertible Notes.

LETTER FROM THE BOARD

Ranking:

The Conversion Shares will be fully paid and will rank pari passu in all respects among themselves and the fully-paid Shares in issue at the date on which the holder(s) of the Conversion Shares is/are registered as such in the Company's register of members.

General Covenants:

So long as any New Convertible Note remains outstanding:

- (i) the Company shall not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest upon the whole or any part of its assets or revenues, to secure any indebtedness or to secure any guarantee or indemnity in respect of any indebtedness, unless (i) its consolidated total debt does not exceed 1.0 times of its consolidated tangible net worth, as determined by reference to the latest consolidated financial statements of the Company published from time to time in respect of each relevant period, or (ii) with prior written approval of the noteholders;
- (ii) the Company shall ensure that its consolidated total debt shall not at any time exceed 1.2 times of its consolidated tangible net worth, as determined by reference to the latest consolidated financial statements of the Company published from time to time in respect of each relevant period;
- (iii) the Company shall not sell, transfer or dispose, whether through one or more transactions within one financial year, all or any substantial assets of the Group which accounts for more than 33.33% of the total value of the assets of the Group as shown in the latest published consolidated financial statements of the Group;
- (iv) the Company shall not authorise, declare or pay any capital distribution if in the case of a relevant cash dividend or a distribution in specie, it, when taken together with the aggregate of the fair market value of any other dividend or distribution previously made or paid in the either current or immediate prior financial year, exceeds 15% of the Company's consolidated net profit for the relevant financial year in relation to which the cash dividend or distribution is made; and
- (v) the Company shall continue to engage in forestry, plantation, timber, wood products and related business.

LETTER FROM THE BOARD

Events of Default:

For so long as any New Convertible Note remains outstanding if any of the following Events of Default occurs, the noteholders may give notice to the Company that the New Convertible Notes, on the giving of such notice, are immediately due and repayable at an amount equal to the CN Redemption Amount:

- (a) failure by the Company to pay any principal, premium or interest due in respect of the New Convertible Notes and such failure continues for a period of three Business Days;
- (b) any failure by the Company to deliver any Shares as and when the Shares are required to be delivered following conversion of the New Convertible Notes;
- (c) there is a material breach of any representation, warranty and other obligation (including, without limitation, any general covenant) of the Company under the CN Subscription Agreement and the New Convertible Notes, or the Company does not perform or comply with any one or more of its other obligations in the New Convertible Notes which default is incapable of remedy provided that no Event of Default will occur if the breach is capable of remedy and is remedied within 30 days of a noteholder giving notice to the Company or the Company becoming aware of the breach;
- (d) (i) any other present or future indebtedness (whether actual or contingent) of the Company for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or (if a grace period is applicable) within any applicable grace period, or (iii) the Company fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised; provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned have occurred and after the applicable grace or notice period has expired equals or exceeds US\$2,000,000 or its equivalent in any currency or currencies and such failure is incapable of remedy or, if capable of remedy, is not remedied within 30 days after written notice of such failure shall have been given by the Company to the noteholders;

LETTER FROM THE BOARD

- (e) the Shares (as a class) cease to be listed or admitted to trading on the Stock Exchange or any alternative stock exchange acceptable to the noteholders or suspension of the trading of Shares on the Stock Exchange or such alternative stock exchange (other than for a temporary suspension of trading for not more than 21 consecutive trading days);
- (f) there is a breach of law or regulation (including the Listing Rules) by the Company or any of its material subsidiaries which will result in a material adverse effect on the business, operations, assets, liabilities (including contingent liabilities), business or financial condition, results or prospects of the Group taken as a whole or would adversely affect the ability of the Company to perform its obligations under the CN Subscription Agreement or the New Convertible Note in any material respect (“**CN Material Adverse Effect**”);
- (g) a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Company or any of its material subsidiaries if capable of remedy and is not discharged or stayed within 30 days;
- (h) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Company or any of its material subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and such enforcement will result in a CN Material Adverse Effect;
- (i) the Company or any of its material subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company or any of its material subsidiaries;

LETTER FROM THE BOARD

- (j) an order is made or an effective resolution passed for the winding-up or dissolution of the Company or any of its material subsidiaries, or the Company ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the noteholders, or (ii) in the case of a material subsidiary, whereby the undertaking and assets of such material subsidiary are transferred to or otherwise vested in the Company or another of its material subsidiaries;
- (k) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company or any of its material subsidiaries;
- (l) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the New Convertible Notes, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the New Convertible Notes admissible in evidence in the courts of Hong Kong, is not taken, fulfilled or done;
- (m) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the New Convertible Notes; or
- (n) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the Events of Default referred to in any of the above paragraphs.

Conditions precedent to the CN Completion

CN Completion is subject to the satisfaction of the following conditions precedent:

- (a) the passing of the necessary resolutions by the Shareholders at the SGM approving, among others, the CN Subscription Agreement, the issue and allotment of the New Convertible Notes to the CN Subscriber pursuant to the terms and conditions of the CN Subscription Agreement and the issue and allotment of Conversion Shares upon conversion of the New Convertible Notes;

LETTER FROM THE BOARD

- (b) none of the Company's warranties in the CN Subscription Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or being misleading or untrue in any material respect;
- (c) no written notice having been received by the Company on or before the earlier of the date on which the resolutions referred to in (a) are passed and the date on which issue of the Subscription Shares pursuant to the Share Subscription Agreement is completed, from the CN Subscriber stating that it is not satisfied (together with reasonable particulars of such dissatisfaction) with the results of its due diligence review of the affairs of the Company;
- (d) all issued Shares remaining listed on, and not having been withdrawn from, the Stock Exchange and save for any temporary suspension of not more than ten consecutive trading days or any suspension pending clearance of any announcement in connection with any announcement required to be made under the Listing Rules (in each case, excluding any suspension in the trading of the Shares on the Stock Exchange pending the clearance or release of any announcement or circular relating to the transactions contemplated under the CN Subscription Agreement), the Stock Exchange and the Executive not having indicated that it will object to such listing and there being no events or circumstances existing based on which the Stock Exchange or the Executive could reasonably be expected to raise such objection or that will adversely affect the listing status of the Shares;
- (e) the approval from the board of directors of the CN Subscriber in relation to the transactions contemplated under the CN Subscription Agreement;
- (f) listing of and permission to deal in all of the Conversion Shares upon conversion of the New Conversion Notes having been granted by the Listing Committee of the Stock Exchange (either unconditionally or subject to conditions);
- (g) if required, the Bermuda Monetary Authority granting its consent to the issue of the New Conversion Notes and the Conversion Shares upon conversion of the New Conversion Notes;
- (h) on or before the CN Completion Date, there having been delivered to the CN Subscriber a legal opinion, in form and substance satisfactory to the CN Subscriber, dated the CN Completion Date, of the Company's Bermudian counsel addressed to the CN Subscriber as to the Bermudian law on the capacity of the Company entering into the CN Subscription Agreement and the performance of its rights and obligations under the CN Subscription Agreement and the transactions contemplated thereunder and other matters customary for transactions of such nature;
- (i) any other waivers, consents, authorizations, clearances and approvals which are required from the relevant courts, governmental or regulatory authorities in Hong Kong and Bermuda, and any confirmations, declarations and certificates of any kind, for the CN Subscription Agreement and the transactions contemplated therein having been granted, fulfilled or given (as applicable); and
- (j) completion of the transactions contemplated under the Share Subscription Agreement in accordance with its terms.

LETTER FROM THE BOARD

If any of the above conditions precedent cannot be fulfilled (or is not otherwise waived by the CN Subscriber in accordance with the terms of the CN Subscription Agreement) by 15 October 2010 (or such later date as the Company and the CN Subscriber may agree in writing), the CN Subscription Agreement will lapse and become null and void, and the Company and the CN Subscriber will be released from all obligations thereunder, save for the liabilities of any antecedent breaches thereof.

Termination

If a CN Material Adverse Change occurs prior to the CN Completion, the CN Subscriber may, without liability to the Company, elect not to proceed to the CN Completion by giving notice in writing to the Company at any time prior to 5.00 p.m. (Hong Kong time) on the date of CN Completion. Upon service of such notice, the CN Subscription Agreement shall terminate.

CN Completion

CN Completion is scheduled to take place on the 14th day (being a Business Day) following the date on which all the conditions precedent (except for matters referred to in paragraph (b) above and the delivery of the opinion referred to in paragraph (h) above) as described above have been fulfilled or waived in accordance with the CN Subscription Agreement (or such other date as the Company and the CN Subscriber may agree).

Nomination of Director

Subject to CN Completion having taken place, the Company shall use its best endeavours to procure that one person nominated by the CN Subscriber shall be appointed as a Director with effect from such earliest date as permitted under the Code and the Listing Rules, provided that the Board considers that the nominated person is suitable to be a Director. The initial person to be nominated by the CN Subscriber is Mr. Simon Murray. Mr. Murray is the chairman and a director of GEMS and is an independent non-executive director of Sino-Forest.

BASIS FOR DETERMINING THE CONVERSION PRICE

The initial Conversion Price of HK\$2.002 was arrived at after arm's length negotiation between the Company and the CN Subscriber with reference to the prevailing market price, the recent trading volume of the Shares and the business prospects of the Group. The Board considers that the initial Conversion Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF ENTERING INTO THE CN SUBSCRIPTION AGREEMENT

Taking into account the recent market conditions and the nature of the Group's forestry and timber business, the Directors consider that the terms of the CN Subscription Agreement (including the annual interest rate at 5%, the redemption period of up to 5 years, the Conversion Price and other terms and conditions of the New Convertible Notes) represent a good opportunity for the Company to obtain further funding so as to accelerate its expansion plan. In addition, as the issuance of the New Convertible Notes will not have an immediate diluting effect of the shareholding of the existing Shareholders, the Directors consider that it is an appropriate means of raising additional capital of the Company under the prevailing market conditions.

LETTER FROM THE BOARD

USE OF PROCEEDS FROM THE ISSUE OF THE SUBSCRIPTION SHARES AND NEW CONVERTIBLE NOTES

The aggregate net proceeds from the issue of the Subscription Shares and New Convertible Notes, after deduction of all related expenses, will be approximately HK\$609 million. As such, the net subscription price per Subscription Share is HK\$1.81 and the net initial Conversion Price per Conversion Share is HK\$1.98. The Company intends to apply these net proceeds for the following purposes:

1. approximately HK\$215 million to enhance the Company's existing forestry and timber business in Suriname, which includes but is not limited to:
 - (a) approximately HK\$95 million to acquire further logging and transportation equipments;
 - (b) approximately HK\$110 million for the construction of a new sawmill to process logs into lumber; and
 - (c) approximately HK\$10 million to enhance the existing infrastructure and acquire lands to enhance the logistic and storage capacity; and
2. approximately HK\$394 million for investment and general working capital purposes.

As at the Latest Practicable Date, Existing Convertible Bonds with an aggregate principal amount of HK\$237,000,000 remained outstanding. The maturity date of the Existing Convertible Bonds is 8 November 2010. As there remains considerable uncertainty over the future development of the global financial and capital markets, the Directors consider that it is prudent and in the interests of the Company and the Shareholders as a whole to maintain a strong cash position for the Group to pursue its growth path. As such, the Company is now in negotiation with the Share Subscriber and Sino-Forest, which together hold approximately 89.59% of the Existing Convertible Bonds, to extend the maturity date from 8 November 2010 to a date not earlier than 9 November 2011 (the "**Proposed Extension**"). Although the Company, the Share Subscriber and Sino-Forest are negotiating in good faith for a binding agreement with respect to the extension of the maturity date of the Existing Convertible Bonds, the Proposed Extension is not yet binding. It is expected that any such extension may constitute a connected transaction and approval from the independent Shareholders of the Company would be required. There can be no assurance that the Company will be able to agree on the terms for the Proposed Extension and that it can obtain approvals from all relevant parties. The Company will issue a further announcement in relation to the Proposed Extension as and when necessary so as to comply with the relevant requirements of the Listing Rules.

If the maturity date of the Existing Convertible Bonds cannot be extended as intended, and the Existing Convertible Bonds are not otherwise converted in accordance with their terms, HK\$237 million will be used to repay the Existing Convertible Bonds upon their maturity. Approximately HK\$57 million will be used as investment in forestry and timber business and the remaining HK\$100 million will be used as general working capital of the Group.

If, however, the maturity date of the Existing Convertible Bonds can be extended, the principal amount of the Existing Convertible Bonds of HK\$237 million will also be used for investment purposes, i.e. a total of HK\$294 million will be used as investment in forestry and timber business and the remaining HK\$100 million will be used as general working capital of the Group.

LETTER FROM THE BOARD

INTENTIONS REGARDING THE COMPANY

The current business carried on by the Company is investment holding and the principal activities of its subsidiaries comprise log harvesting, lumber processing, marketing and sales of logs and lumber products. It is the intention of the Company, Sino-Forest and the Share Subscriber that the Company will continue to carry on this business following Completion. The strengthening of the existing relationship by entering into the Share Subscription Agreement demonstrates both the Company's and Sino-Forest's commitment to improving the Company's capital structure and to delivering shareholder value through greater synergies in operations, management, financial standing and sustainable development.

Neither Sino-Forest nor the Share Subscriber has any intention to introduce any major changes to the existing business, or any redeployment of fixed assets of the Company other than in its ordinary course of business, and each of Sino-Forest and the Share Subscriber intends that the employees of the Company and its subsidiaries will continue to be employed by the Group.

PROPOSED APPOINTMENT OF DIRECTORS

Subject to Completion having taken place, the Company proposes to appoint Mr. Allen Chan as chairman and as a non-executive Director of the Company and Mr. Judson Martin as president, chief executive officer and Director of the Company with effect from such earliest date as permitted under the Code and the Listing Rules with the view to increasing the expertise of the Board and strengthening the corporate governance of the Company.

Mr. Chan is the chairman and chief executive officer and a director of Sino-Forest. Mr. Chan co-founded Sino-Forest in 1992 and has been a director of Sino-Forest since 1994, with responsibility for Sino-Forest's overall strategic planning and management. Before co-founding Sino-Forest, Mr. Chan worked for 12 years as a management consultant and project manager in China. He has also worked for the Hong Kong government in new town development and management programs.

Mr. Martin is a non-executive director of Sino-Forest and has been a director of Sino-Forest since 2006. Before joining Sino-Forest, Mr. Martin was executive vice president and chief financial officer of Alliance Atlantis Communications Inc. from 1999 to 2002 and senior executive vice president and chief financial officer from 2003 to 2005. Mr. Martin is also the chairman of SWEF Terrawinds Resources Corporation and chair of its audit committee.

As disclosed in the section headed "The CN Subscription Agreement and Principal Terms of the New Convertible Notes – Nomination of Director" above, subject to CN Completion having taken place, the Company shall use its best endeavours to procure that one person nominated by the CN Subscriber shall be appointed as a Director with effect from such earliest date as permitted under the Code and the Listing Rules, provided that the Board considers that the nominated person is suitable to be a Director. The initial person to be nominated by the CN Subscriber is Mr. Simon Murray.

LETTER FROM THE BOARD

Mr. Murray is the chairman and a director of GEMS and is an independent non-executive director of Sino-Forest. Before establishing GEMS in 1998, Mr. Murray was the group managing director of Hutchison Whampoa Ltd. from 1984 to 1993 and the executive chairman in Asia Pacific of the Deutsche Bank group from 1993 to 1997. Mr. Murray is also a director of a number of public companies including Cheung Kong (Holdings) Limited, Orient Overseas (International) Limited, Arnold Holdings Limited, USI Holdings Limited, Compagnie Financière Richemont SA and Vodafone Group Plc. He is a member of the Former Directors Committee of The Community Chest and is involved in a number of other charitable organizations, including The China Coast Community Association.

INFORMATION ABOUT THE SHARE SUBSCRIBER, SINO-FOREST AND THE CN SUBSCRIBER

Share Subscriber

Sino-Capital is a wholly-owned subsidiary of Sino-Forest. Sino-Capital is incorporated in the British Virgin Islands and its principal business is investment holding. The investment assets held by Sino-Capital include Shares, Existing Convertible Bonds and shares of Greenheart.

Sino-Forest

Sino-Forest is a company listed on the Toronto stock exchange under the symbol TRE since 1995 with approximately US\$4 billion market capitalization as at the Latest Practicable Date. Sino-Forest is a widely held publicly traded company and there is no person who either individually or when taken together with persons acting in concert exercise control (as defined in the Code) over the voting rights of Sino-Forest. Sino-Forest is a leading commercial forest plantation operator in China. Its principal businesses include the ownership and management of forest plantation trees, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered wood products. Sino-Forest operates in ten key provinces in China, with over 2,500 full-time employees. As at 31 March 2010, Sino-Forest had approximately 694,100 hectares of forestry plantation located in China with access to an additional 800,000 hectares of wood fibre under long-term fibre purchase agreements. Sino-Forest is a pioneer in the plantation industry and has an established track record of 15 years of growth and profitability. For the year ended 31 December 2009, Sino-Forest recorded a turnover of approximately US\$1.2 billion and net profit of approximately US\$286.4 million.

Greater Sino Holdings Limited

The CN Subscriber is a special purpose vehicle for a private equity fund targeting investments across a diversified portfolio of natural resources companies or assets (including forestry) with exposure to broad Asian growth. The fund manager of the CN Subscriber, ARF Investment Management Limited, is a wholly-owned subsidiary of GEMS which is a private equity fund management group that manages over US\$600 million across its funds that in turn make direct investments in the Asia Pacific region.

The CN Subscriber is not a person acting in concert with the Share Subscriber or Sino-Forest and is independent of and is not a connected person of the Company.

LETTER FROM THE BOARD

INFORMATION ABOUT THE COMPANY

The principal activity of the Company is investment holding. The principal activities of the subsidiaries of the Company comprise log harvesting, lumber processing, marketing and sales of logs and lumber products.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not conducted any fund raising activity in the 12 months immediately before the date of this circular.

SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming no new Shares other than the Subscription Shares will be issued before the Completion and CN Completion, the table below sets out the shareholding structure of the Company as at the Latest Practicable Date and the maximum diluting effect (i) upon completion of the Share Subscription Agreement and CN Subscription Agreement; (ii) upon completion of the Share Subscription Agreement and CN Subscription Agreement and full conversion of the Existing Convertible Bonds into Shares assuming none of the New Convertible Notes or Share Options are converted or exercised; (iii) upon completion of the Share Subscription Agreement and CN Subscription Agreement and full conversion of the New Convertible Notes and the Existing Convertible Bonds assuming none of the Share Options are exercised; and (iv) upon completion of the Share Subscription Agreement and CN Subscription Agreement and full conversion of the New Convertible Notes and the Existing Convertible Bonds and full exercise of all Share Options.

LETTER FROM THE BOARD

Name	Shareholding as at the Latest Practicable Date		Shareholding upon completion of the Share Subscription Agreement and the CN Subscription Agreement		Shareholding upon completion of the Share Subscription Agreement and the CN Subscription Agreement and full conversion of the Existing Convertible Bonds (Note 1) (none of the New Convertible Notes or Share Options are converted or exercised)		Shareholding upon completion of the Share Subscription Agreement and the CN Subscription Agreement and full conversion of the New Convertible Notes and Existing Convertible Bonds (none of the Share Options are exercised)		Shareholding upon completion of the Share Subscription Agreement and the CN Subscription Agreement and full conversion of the New Convertible Notes and Existing Convertible Bonds and full exercise of all Share Options	
	Shares	%	Shares	%	Shares	%	Shares	%	Shares	%
Sino-Capital	7,860,000	2.49	237,860,000	43.58	260,208,500	39.17	260,208,500	34.18	260,208,500	32.77
Sino-Forest	55,000,000	17.42	55,000,000	10.08	138,815,650	20.90	138,815,650	18.23	138,815,650	17.48
Sino-Capital together with persons acting in concert with it (including Sino-Forest) (Note 2)	62,860,000	19.91	292,860,000	53.66	399,024,150	60.07	399,024,150	52.41	399,024,150	50.25
The CN Subscriber	–	–	–	–	–	–	97,077,922	12.75	97,077,922	12.23
GEMS	7,000,000	2.20	7,000,000	1.28	7,000,000	1.05	7,000,000	0.92	7,000,000	0.88
Existing Convertible Bonds holders (other than Sino-Capital and persons acting in concert with it)	6,246,000	2.00	6,246,000	1.14	18,581,850	2.80	18,581,850	2.44	18,581,850	2.34
Share Options holders (Note 3)	–	–	–	–	–	–	–	–	32,680,000	4.11
Other public Shareholders	239,683,152	75.90	239,683,152	43.92	239,683,152	36.08	239,683,152	31.48	239,683,152	30.19
Total (Note 4)	315,789,152	100.00	545,789,152	100.00	664,289,152	100.00	761,367,074	100.00	794,047,074	100.00

Notes:

- As at the Latest Practicable Date, the conversion price of the Existing Convertible Bonds was HK\$2.00 per Share.
- As at the Latest Practicable Date, Sino-Capital and Sino-Forest held Existing Convertible Bonds in the principal amount of HK\$44,697,000 and HK\$167,631,300 respectively.
- As at the Latest Practicable Date, there were outstanding Share Options under the Share Option Scheme entitling the holders to subscribe for 32,680,000 Shares at the respective prices of HK\$0.46, HK\$1.36, HK\$1.65 and HK\$1.744.
- Please note that the percentages may not add up to 100% due to rounding.

DIRECTORS' INTERESTS IN THE SHARE SUBSCRIPTION AGREEMENT

None of the Directors has a material interest in the connected transaction constituted by the Share Subscription Agreement. Accordingly, none of them is required to abstain from voting on the relevant board resolution(s) to approve the Share Subscription Agreement under the bye-laws of the Company or the Listing Rules.

LETTER FROM THE BOARD

APPOINTMENT OF THE INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising the Company's independent non-executive Directors (namely Messrs. Wong Che Keung Richard, Tong Yee Yung Joseph and Wong Kin Chi) has been established to advise the Independent Shareholders as to (i) whether the Share Subscription and the Whitewash Waiver are fair and reasonable and in the interests of the Shareholders as a whole; and (ii) how to vote at the SGM.

Taifook has been appointed (with the approval of the Independent Board Committee) as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Subscription Agreement and the Whitewash Waiver. The letter from Taifook setting out its advice and recommendations to the Independent Board Committee and the Independent Shareholders on the Share Subscription Agreement and the Whitewash Waiver is set out on pages 30 to 39 of this circular.

SGM

The SGM will be held at Boardrooms 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong, on Thursday, 29 July 2010 at 10:00 a.m. to consider and, if thought fit, approve, inter alia, (a) the execution, delivery and performance of the Share Subscription Agreement and the CN Subscription Agreement; (b) the issue and allotment of the Subscription Shares; (c) the issue of the New Convertible Notes and the issue and allotment of the Conversion Shares upon conversion of the New Convertible Notes; and (d) the Whitewash Waiver. A notice of the SGM is set out on pages 109 to 111 of this circular.

The Share Subscriber and persons acting in concert with it (including Sino-Forest) and those Shareholders who are involved in or interested in the Share Subscription and the Whitewash Waiver shall abstain from voting on the resolutions in respect of the Share Subscription and the Whitewash Waiver at the SGM. As at the Latest Practicable Date, the Share Subscriber and persons acting in concert with it (including Sino-Forest) held 62,860,000 Shares, representing approximately 19.91% of the issued share capital of the Company. As the CN Completion is subject to the completion of the issue of the Subscription Shares, the CN Subscriber (if it holds any Shares) is considered to be interested in the Share Subscription and the Whitewash Waiver and will not form part of the Independent Shareholders for this purpose. Due to the relationship between the CN Subscriber and GEMS (as set out in the section headed "Information About the Share Subscriber, Sino-Forest and the CN Subscriber – Greater Sino Holdings Limited" above), GEMS will also not form part of the Independent Shareholders for this purpose. Both the CN Subscriber (if it holds any Shares) and GEMS shall abstain from voting on the resolutions in respect of the Share Subscription and the Whitewash Waiver at the SGM.

LETTER FROM THE BOARD

The CN Subscriber (if it holds any Shares) and GEMS shall also abstain from voting at the SGM on the resolution in relation to the CN Subscription Agreement pursuant to the Listing Rules. To the best of the Directors' knowledge, no Shareholder except for the CN Subscriber (if it holds any Shares) and GEMS has a material interest in the CN Subscription Agreement and therefore no Shareholder except for the CN Subscriber (if it holds any Shares) and GEMS is required to abstain from voting on the resolution in respect of the CN Subscription Agreement and the issue and allotment of the Conversion Shares upon conversion of the New Convertible Notes. As at the Latest Practicable Date, the CN Subscriber did not hold any Shares, while GEMS held 7,000,000 Shares, representing approximately 2.20% of the issued share capital of the Company.

Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. Accordingly, the Company will procure the chairman of the SGM to demand for voting on poll in respect of the ordinary resolutions to be proposed at the SGM in accordance with the Company's bye-laws and Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong, will serve as the scrutineer for the vote-taking.

RECOMMENDATION

The Directors (including members of the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) consider that the Share Subscription Agreement and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. The Directors therefore recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Share Subscription Agreement and the Whitewash Waiver.

ADDITIONAL INFORMATION

Your attention is drawn to the letters from the Independent Board Committee and from the Independent Financial Adviser which are respectively set out on pages 28 to 29 and pages 30 to 39 of this circular. Additional information is also set out in the Appendix of this circular for your information.

By Order of the Board
Omnicorp Limited
Sung Yan Wai Petrus
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



13 July 2010

To the Independent Shareholders

Dear Sir or Madam,

1. CONNECTED TRANSACTION – ISSUE OF SUBSCRIPTION SHARES TO A CONNECTED PERSON

AND

2. APPLICATION FOR WHITEWASH WAIVER

We refer to the circular dated 13 July 2010 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as the members of the Independent Board Committee to consider (1) the terms of the Share Subscription Agreement and the connected transaction contemplated thereunder; and (2) the Whitewash Waiver and to advise the Independent Shareholders as to the fairness and reasonableness of the same. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

RECOMMENDATION

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 27 of the Circular, and the letter of advice from the Independent Financial Adviser which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders as to whether or not (1) the terms of the Share Subscription Agreement and the connected transaction contemplated thereunder; and (2) the Whitewash Waiver as set out on pages 30 to 39 of the Circular are fair and reasonable and in the interests of the Independent Shareholders, as well as the principal factors and reasons for its advice and recommendation.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

After taking into consideration the factors and reasons considered by the Independent Financial Adviser, and the opinions, advice and recommendations of the Independent Financial Adviser, we concur with the views of the Independent Financial Adviser and consider that (1) the terms of Share Subscription Agreement and the connected transaction contemplated thereunder; and (2) the Whitewash Waiver are each in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve (1) the terms of the Share Subscription Agreement and the connected transaction contemplated thereunder; and (2) the Whitewash Waiver.

Yours faithfully,

For and on behalf of the Independent Board Committee

Tong Yee Yung Joseph

Wong Che Keung Richard

Wong Kin Chi

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Taifook Capital Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

13 July 2010

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

**CONNECTED TRANSACTION–
ISSUE OF SUBSCRIPTION SHARES TO A CONNECTED PERSON
AND
APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Subscription Agreement which involves (i) the subscription of new Shares by Sino-Capital and (ii) the application for the Whitewash Waiver. Details of the Share Subscription and the transactions contemplated thereunder and the application for the Whitewash Waiver are set out in the letter from the Board as contained in the circular of the Company dated 13 July 2010 ("Circular") of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Sino-Forest together with persons acting in concert with it (including Sino-Capital) are interested in approximately 19.91% of the issued share capital of the Company as at the Latest Practicable Date and is a substantial shareholder and thus a connected person of the Company as defined under the Listing Rules. Sino-Capital being a wholly-owned subsidiary of Sino-Forest is therefore also a connected person of the Company under the Listing Rules. Sino-Forest and Sino-Capital are also bondholders collectively holding convertible bonds in the aggregate principal amount of HK\$212,328,300 (representing approximately 89.59% of the entire principal amount of the Existing Convertible Bonds) as at the Latest Practicable Date. Assuming conversion of the Existing Convertible Bonds held by Sino-Forest and Sino-Capital and before the completion of the Share Subscription, Sino-Forest together with persons acting in concert with it (including Sino-Capital) would own approximately 40.06 % of the enlarged issued share capital of the Company. The Share Subscription constitutes a connected transaction for the Company and is subject to the approval of the Independent Shareholders under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Immediately following the issue of new Shares to Sino-Capital under the Share Subscription, the interest of Sino-Forest together with persons acting in concert with it (including Sino-Capital) will increase from approximately 19.91% of the existing issued share capital of the Company to approximately 53.66% of the issued share capital of the Company as enlarged by the Subscription Shares (but before the conversion of any of the Existing Convertible Bonds). Accordingly, Sino-Capital and parties acting in concert with it (including Sino-Forest) (the “Sino-Capital Concert Parties Group”) would be obliged to make a mandatory general offer for all the Shares not already owned or agree to be acquired by them pursuant to Rule 26 of the Code as well as to make comparable offers for all the outstanding convertible notes and options of the Company not already owned or agree to be acquired by them pursuant to Rule 13 of the Code as a result of the Completion unless a waiver from strict compliance with Rule 26.1 of the Code has been obtained from the Executive. The Sino-Capital Concert Parties Group has made an application to the Executive for the Whitewash Waiver from an obligation to make a general offer under Rule 26 of the Takeovers Code. The Executive has indicated that it will grant to the Sino-Capital Concert Parties Group, the Whitewash Waiver subject to the approval of the Independent Shareholders at the SGM on a vote taken by poll.

The Sino-Capital Concert Parties Group and those Shareholders who are involved in, or interested in the Share Subscription and the Whitewash Waiver shall abstain from voting on the relevant resolutions to be proposed at the SGM regarding the Share Subscription and the transaction contemplated thereunder and the Whitewash Waiver.

The Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. Wong Che Keung Richard, Tong Yee Yung Joseph and Wong Kin Chi, has been established to advise the Independent Shareholders whether the Share Subscription and the transactions contemplated thereunder and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole and how to vote on the relevant resolutions in the SGM.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information, financial information and facts 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 and facts and any representations made to us, or referred to in the Circular, in all material aspects, are true, accurate and complete as at the time they were made and as at the date of the Circular, 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. 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 facts 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 information provided by the Group including the Share Subscription Agreement, the annual report of the Company for the year ended 31 December 2009 (the “Annual Report”) and the Circular.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the entering into of the Share Subscription Agreement and the transactions contemplated thereunder, and consider that we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information nor have we conducted any form of in-depth investigation into the businesses, affairs, financial position or prospects of the Group and the parties involved in the Share Subscription Agreement and the transactions contemplated thereunder.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Share Subscription and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

I. Information of the Group

The Group is principally engaged in log harvesting, lumber processing, marketing and sales of logs and lumber products. The table below summarises the financial information extracted from the annual report of the Group for the two years ended 31 December 2009:

	Year ended 31 December 2008 <i>HK\$'000</i> (Audited)	Year ended 31 December 2009 <i>HK\$'000</i> (Audited)
Revenue	4,773	11,226
Loss attributable to equity holders of the Company	103,783	86,247
Cash and cash equivalents	111,589	40,916
Convertible bonds	225,598	237,000
Total equity	579,389	510,262

As disclosed in the Annual Report, despite the very challenging economic condition which prevailed over 2009, the Group recorded growth of revenue of approximately 135.2% mainly contributed by the forestry and timber division. During 2009, the Group successfully penetrated into the China market by building up its own sales. With the improvement in revenue and the results of the Group's associates, loss attributable to the equity holders of the Company fell to approximately HK\$86.2 million when compared that with the approximately HK\$103.8 million loss attributable to equity holders of the Company for 2008. Loss attributable to the equity holders of the Company for 2009 was partly contributed by the share option expense incurred in relation to the grant of share option by the Company to staff of the Company and other eligible person during the year amounted to HK\$24.3 million which was non-recurring and non-cash in nature.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at 31 December 2009, the Group had cash and cash equivalents of approximately HK\$40.9 million, which was substantially less than the entire principal amount of the Existing Convertible Bonds of HK\$237 million maturing on 9 November 2010. The Existing Convertible Bonds of the Company were issued in 2007 with an interest at 4% per annum payable by the Company per semi-annually in arrears. Approximately 89.59% of the Existing Convertible Bonds are currently held by Sino-Forest and Sino-Capital. As disclosed in the Annual Report, a written confirmation was obtained from Sino-Forest, the ultimate beneficial owner of approximately 89.59% of the Company's convertible bond that Sino-Forest is in discussion with the Company in extending the maturity date of the Existing Convertible Bonds from 8 November 2010 to a date not earlier than 9 November 2011. Total equity of the Group as at 31 December 2009 decreased to approximately HK\$510.3 million from approximately HK\$579.4 million as at 31 December 2008.

According to the Annual Report, as the global financial crisis seems to have bottomed out towards the end of 2009, the global demand for wood products is expected to continue to rise throughout 2010. In addition it is expected by the management of the Group that the demand of the Group's logs will be further strengthened following the ban of log export of Gabon, one of the major tropical hardwood exporting countries in the world. As such, the Group will continue to make investment to raise productivity and improve operation efficiency to enhance supply and delivery to the market.

II. Information about Sino-Forest and Sino-Capital

Sino-Forest is a company listed on the Toronto Stock Exchange under the symbol TRE since 1995 with approximately US\$4 billion market capitalization as at the Latest Practicable Date. Sino-Forest is a widely held publicly traded company and there is no person who either individually or when taken together with persons acting in concert exercise control (as defined in the Code) over the voting rights of Sino-Forest. Its principal businesses include the ownership and management of forest plantation trees, the sale of standing timber and wood logs, and the complementary manufacturing of downstream engineered-wood products. Sino-Forest is a leading commercial forestry plantation operator in China. Sino-Forest operates in ten key provinces in China, with over 2,500 full-time employees. As at 31 March 2010, Sino-Forest had approximately 694,100 hectares of forestry plantation located in China with access to an additional 800,000 hectares of wood fibre under long-term fibre purchase agreements. Sino-Forest is a pioneer in the plantation industry and has an established track record of 15 years of strong growth and profitability. For the year ended 31 December 2009, Sino-Forest recorded an audited turnover of approximately US\$1.2 billion and an audited net profit of approximately US\$286.4 million.

Sino-Capital is a wholly-owned subsidiary of Sino-Forest. Sino-Capital is incorporated in the British Virgin Islands and its principal business is investment holding. The investment assets held by Sino-Capital include the Shares and Existing Convertible Bonds, and shares of Greenheart (an operating arm of the Company).

III. The Share Subscription

1. Background to and reasons for the Share Subscription

According to the Annual Report, the Company has budgeted further capital investments, including, but not limited to, further investment in logging and transportation equipment, together with the planned new sawmill and better infrastructure of the Group's camp site to meet the strong demand of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Group's forestry and timber products. In addition to organic growth, the Group is also actively exploring investment opportunities with a vision to build the Group into a world leading hardwood supplier. In view of the existing capital structure and taking into account the recent market conditions and the nature of the Group's forestry and timber businesses, the Board announced on 22 June 2010 that the Company entered into the Share Subscription Agreement with Sino-Capital in order to strengthen its capital base and raise long term equity fund for further expansion and development of the Group's existing and new business activities and as general working capital. The total consideration of the Share Subscription is expected to be approximately HK\$418.6 million.

As mentioned in the section headed "Information of the Group" above, the Company is now in negotiation with Sino-Capital and Sino-Forest to extend the maturity date of the Existing Convertible Bonds, to a date not earlier than 9 November 2011. Although the Company, Sino-Capital and Sino-Forest are negotiating in good faith for a binding agreement with respect to the extension of the maturity date of the Existing Convertible Bonds, the proposed extension is not yet binding. There can be no assurance that the Company will be able to agree on the terms of the proposed extension and that it can obtain approvals from all relevant parties. If the maturity date of the Existing Convertible Bonds cannot be extended as intended, and the Existing Convertible Bonds are not otherwise converted in accordance with their terms, the net proceeds of the Share Subscription may be able to serve as one of the financial resources to provide funding to repay the Existing Convertible Bonds upon their maturity.

Sino-Forest has been a long-term strategic Shareholder since 2007, both directly and through its wholly-owned subsidiary Sino-Capital, the subscriber of the Subscription Shares. Sino-Forest is also indirectly interested in 39.61% of the issued share capital of Greenheart, an operating arm of the Company holding and operating approximately 178,000 hectares forest concessions in Suriname. After the completion of the Subscription, Sino-Forest and its subsidiaries will increase their shareholding in the Company to approximately 53.66% (assuming no conversion of the Existing Convertible Bonds). The Directors consider that the increased shareholding by Sino-Capital in the Company will strengthen the relationship between the Group and Sino-Forest and accelerate the Group's expansion plan in tropical hardwood business, enable the Company to leverage Sino-Forest's international distribution channels, experienced financial and operating management, research and development knowledge and its two decades of successful and sustainable harvesting expertise to accelerate the Group's development. Moreover, the Share Subscription will also reflect the long-term commitment and support of Sino-Forest to the Company.

The Directors are of the view that the terms of the Share Subscription Agreement are on normal commercial terms following arm's length negotiation between the Company and Sino-Capital and are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Share Subscription Agreement

Pursuant to the Share Subscription Agreement, 230,000,000 Subscription Shares will be issued to Sino-Capital, representing approximately 72.83% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 42.14% of the issue issued share capital of the Company as enlarged by the issue of the Subscription Shares. The Subscription Shares are to be issued cum-dividend, and when issued shall rank pari passu among themselves and with all existing Shares in issue on the date of issue and allotment of the Subscription Shares, including the right to receive all dividends, bonuses and distributions declared, made or paid by the Company on or after the date of the issue and allotment of the Subscription Shares.

The Share Subscription Agreement is conditional upon among other things (i) the passing of the necessary resolutions by the Independent Shareholders at the SGM approving, among others, the Share Subscription Agreement, the Whitewash Waiver and the issue and allotment of the Subscription Shares to the Share Subscriber pursuant to the terms and conditions of the Share Subscription Agreement; and (ii) the Executive granting the Whitewash Waiver. If any of the conditions precedent cannot be fulfilled (or is not otherwise waived by the Share Subscriber in accordance with the terms of the Share Subscription Agreement) by 30 September 2010 (or such later date as the Company and the Share Subscriber may agree in writing), the Share Subscription Agreement will terminate, lapse and become null and void, and the Company and the Share Subscriber will be released from all obligations thereunder, save for the liabilities of any antecedent breaches thereof. As at the Latest Practicable Date none of the conditions had been fulfilled.

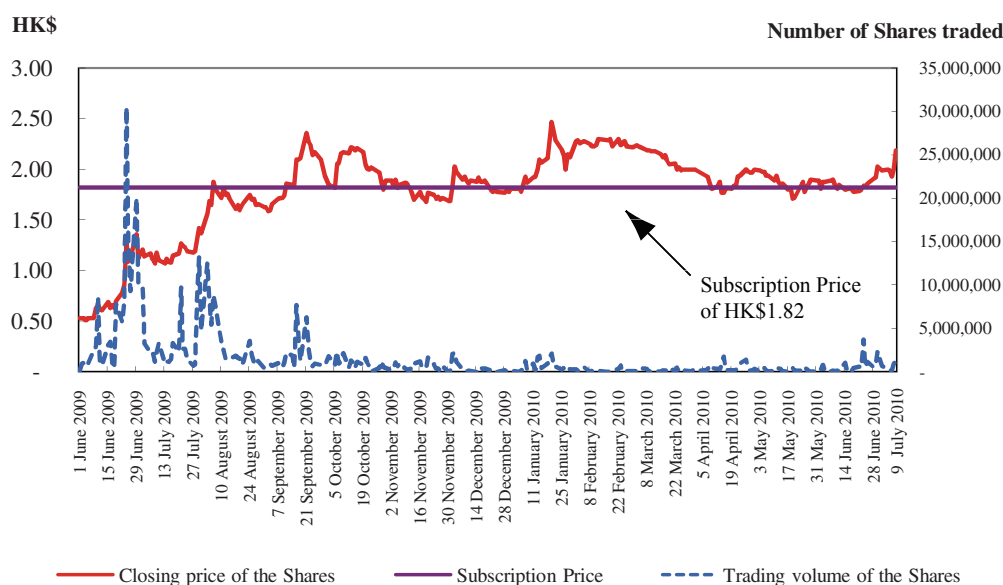
Subscription Price

We noted that the Subscription Price was arrived at after arm's length negotiation between the Company and Sino-Capital with reference to the prevailing market price and the recent trading volume of the Shares and the business prospects of the Group. The Subscription Price of HK\$1.82 per Subscription Share represents:

- (i) a premium of approximately 1.68% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange on 21 June 2010, being the last trading day prior to the date of the Share Subscription Agreement;
- (ii) a premium of approximately 1.11% over the average closing price of HK\$1.80 per Share as quoted on the Stock Exchange for the last five trading days immediately preceding the date of the Share Subscription Agreement;
- (iii) a discount of approximately 0.55% to the average closing price of HK\$1.83 per Share as quoted on the Stock Exchange for the last ten trading days immediately preceding the date of the Share Subscription Agreement;
- (iv) a discount of approximately 16.89% over the closing price of HK\$2.19 per Share as quoted on the Stock Exchange on 9 July 2010, being the Latest Practicable Date; and
- (v) a premium of approximately 143% over the Group's audited consolidated net asset value per Share of approximately HK\$0.75 per Share as at 31 December 2009.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The premium of the Subscription Price over the prevailing price of the Shares before the issue of the Announcement demonstrates the confidence of Sino-Capital in the business of the Group. In order to assess the fairness and reasonableness of Subscription Price, we have analysed the historical price performance of the Company over a longer period of time. The chart below illustrates the movement of the daily closing prices of the Shares during the period from 1 June 2009 up to the Latest Practicable Date (the “Review Period”):



Source: <http://www.hkex.hk>

During the Review Period, the closing price of the Shares ranged from HK\$0.51 per Share to HK\$2.47 per Share. The average closing price of the Shares for the Review Period was approximately HK\$1.79 per Share. The Subscription Price lies within the range of the closing price and is above the average closing price of the Shares for the Review Period.

The Subscription Price also represents a significant premium of approximately 143% over the audited net assets value per share of the Company (based on the audited consolidated net assets of the Company attributable to the Shareholders and Shares in issue as at 31 December 2009 of approximately HK\$0.75 per Share).

Based on the above factors, we consider that the Subscription Price is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Effects on the shareholding structure of the Company

Upon completion of the Share Subscription Agreement, 230,000,000 Subscription Shares will be issued. The following table illustrates the Company's shareholding changes as a result of the Share Subscription:

Name	Shareholding as at the Latest Practicable Date		Shareholding upon completion of the Share Subscription Agreement and without conversion of any convertible securities		Shareholding upon completion of the Share Subscription Agreement and the CN Subscription Agreement and full conversion of the New Convertible Notes and Existing Convertible Bonds (none of the Share Options are exercised)	
	Shares	%	Shares	%	Shares	%
Sino-Capital together with persons acting in concert with it (including Sino-Forest) (Note 1)	62,860,000	19.91	292,860,000	53.66	399,024,150	52.41
The CN Subscriber	–	–	–	–	97,077,922	12.75
GEMS	7,000,000	2.20	7,000,000	1.28	7,000,000	0.92
Existing Convertible Bonds holders (other than Sino-Capital and persons acting in concert with it)	6,246,000	2.00	6,246,000	1.14	18,581,850	2.44
Other public Shareholders	239,683,152	75.90	239,683,152	43.92	239,683,152	31.48
Total (Note 2)	315,789,152	100.00	545,789,152	100.00	761,367,074	100.00

Notes:

- As at the Latest Practicable Date, Sino-Forest and Sino-Capital are interested in 55,000,000 Shares and 7,860,000 Shares respectively. In addition, Sino-Forest and Sino-Capital also held Existing Convertible Bonds in the principal amount of HK\$167,631,300 and HK\$44,467,000 respectively.
- The percentages may not add up to 100% due to rounding.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The interest of the existing Independent Shareholders will be diluted from approximately 75.90% to 43.92% upon completion of the Share Subscription Agreement while net asset value per Share of the Group will increase substantially. We consider the level of dilution to the existing Independent Shareholders significant. However, given the issuance of the Subscription Shares will bring in significant amount of additional working capital to the Group for the future funding requirement on its business expansion which Independent Shareholders will be able to participate in a much larger businesses with improved production capacity and growth prospect. On this basis, we consider the dilution effect to the Independent Shareholders acceptable.

5. Other fund raising alternatives

The Directors have considered raising the entire amount of required fund through issuance of New Convertible Notes, however in view of the finance cost attributable to the convertible notes, the Directors consider that raising part of the fund through the Share Subscription will reduce the finance cost and be more cost-effective.

The Directors have also considered other means of raising permanent equity capital, including by means of a right issue or an open offer available to all Shareholders. However, the discount to market price needed to be offered, in our opinion, would have been higher for a rights issue or for an open offer. In addition, there would have been substantial underwriting costs, whereas no fees are payable to the Share Subscriber, and a greater completion risk in today's volatile market conditions and additional time and procedures is required for a rights issue or an open offer and given the Group recorded continuous loss in the past, which would be difficult to get an underwriter to underwrite the entire right issue or an open offer. We concur with the Directors that the Share Subscription better controls the market and completion risks, as it is more cost-effective and time-efficient.

6. Financial effects

(i) *Gearing and working capital*

According to the Annual Report, the Group had audited cash and cash equivalents of HK\$40.9 million as at 31 December 2009 representing a decrease of approximately 63.3% when compared to the prior year. The Group also had a current ratio of approximately 1.81 times, for the year ended 31 December 2009 and the Group continued to record net cash outflow from operating activities in the past two years. The Share Subscription will provide the Group with immediate additional liquidity and improve the level working capital of the Group.

The Group's equity base would be enlarged by issuance of Subscription Shares under the Share Subscription and gearing would improve accordingly. However, the improvement of gearing will be partly offset by the issuance of the New Convertible Notes which was also announced by the Company in the Announcement.

(ii) *Earnings*

Save for the expenses relating to the Share Subscription, we are of the view that the completion of the Share Subscription will not have any immediate material impact on the earnings of the Group. Nevertheless, earnings per share will be diluted as a result of the Share Subscription.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) Net assets value

Upon completion of the Share Subscription, the net assets of the Group will be increased, being mainly the increase in share capital and share premium resulting from the issuance of the Subscription Shares.

WHITEWASH WAIVER

Immediately following the allotment and issue of the Subscription Shares to Sino-Capital, and assuming that there is no further issue of Shares prior to the completion of the Share Subscription, the interest of the Sino-Capital Concert Parties Group in the Company will increase from approximately 19.91% to approximately 53.66% of the issued ordinary share capital of the Company immediately upon completion of the Share Subscription. The Sino-Capital Concert Parties Group are therefore obliged under Rule 26.1 of the Takeovers Code to make a mandatory general offer for all the issued shares of the Company that are not already owned or agreed to be acquired by the Sino-Capital Concert Parties Group as a result of Completion. An application has been made to the Executive for the Whitewash Waiver and the Executive has indicated that it will grant to Sino-Capital Concert Parties Group the Whitewash Waiver subject to the approval of the Independent Shareholders at the SGM by way of a poll.

Independent Shareholders should note that after completion of the Share Subscription, the Sino-Capital Concert Parties Group will hold more than 50% of the issued ordinary share capital of the Company. As such any further acquisition of interest of the Company by the Sino-Capital Concert Parties Group would not be subject to the obligation to make a general offer under the Takeovers Code.

As discussed above, the Share Subscription is conditional on, among other things, the approval of the Whitewash Waiver by the Independent Shareholders at the SGM. If the Whitewash Waiver is not approved, the Share Subscription will not proceed and no general offer obligation will be triggered. In the event the Share Subscription cannot proceed, the Company will lose one of its possible sources of financing for its future investment and the supply of working capital.

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the terms of the Share Subscription Agreement involving the issue of the Subscription Shares and the Whitewash Waiver are on normal commercial terms and entered into the ordinary and usual course of business of the Group. We further consider that the terms of the Share Subscription Agreement, the issue of the Subscription Shares and the Whitewash Wavier are fair and reasonable to the Independent Shareholders and that it is in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Share Subscription Agreement, the issue of the Subscription Shares and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Taifook Capital Limited
Derek C.O. Chan
Managing Director

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****1. SUMMARY OF FINANCIAL INFORMATION**

The following is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2007, 2008 and 2009, as extracted and summarised from the relevant annual reports of the Company.

Consolidated Statement of Comprehensive Income

	31 December 2009 HK\$'000	31 December 2008 HK\$'000	31 December 2007 HK\$'000 (Restated)
CONTINUING OPERATIONS			
Revenue	11,226	4,773	5,615
Cost of sales	(5,412)	(3,966)	(2,185)
Gross profit	5,814	807	3,430
Other income and gains	1,137	10,824	5,062
Selling and distribution costs	(4,731)	(464)	(344)
Administrative expenses	(41,821)	(40,318)	(17,149)
Other expenses	(34,362)	(9,833)	(25,440)
LOSS FROM OPERATING ACTIVITIES	(73,963)	(38,984)	(34,441)
Finance costs	(20,883)	(22,367)	(2,584)
Share of results of associates	(1,725)	(50,982)	36
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	(96,571)	(112,333)	(36,989)
Tax credit	191	132	14
Loss for the year from continuing operations	(96,380)	(112,201)	(36,975)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	–	(2,868)	(107,872)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(96,380)	(115,069)	(144,847)
ATTRIBUTABLE TO:			
Equity holders of the Company	(86,247)	(103,783)	(130,829)
Non-controlling interests	(10,133)	(11,286)	(14,018)
	(96,380)	(115,069)	(144,847)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic			
– Continuing operations	HK\$(0.27)	HK\$(0.32)	HK\$(0.20)
– Discontinued operations	–	HK\$(0.01)	HK\$(0.52)
	HK\$(0.27)	HK\$(0.33)	HK\$(0.72)
Diluted			
– Continuing operations	N/A	N/A	N/A
– Discontinued operations	N/A	N/A	N/A
	N/A	N/A	N/A

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Statement of Financial Position**

	31 December 2009	31 December 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	17,205	17,523	11,899
Prepaid land lease payment	1,448	1,448	–
Prepayment for items of property, plant and equipment	3,128	–	–
Timber concessions and cutting rights	747,384	749,313	750,639
Investment property	–	–	1,450
Goodwill	7,624	7,624	–
Interests in associates	20,962	14,687	50,669
Available-for-sale investments	–	–	6,000
Total non-current assets	797,751	790,595	820,657
CURRENT ASSETS			
Inventories	6,920	6,859	8,736
Trade and other receivables	2,948	796	15,129
Prepayments and deposits	1,312	1,600	2,394
Current tax recoverable	–	–	1
Equity investments at fair value through profit or loss	–	–	914
Pledged bank deposits	–	–	16,864
Cash and cash equivalents	40,916	111,589	237,447
Total current assets	52,096	120,844	281,485
CURRENT LIABILITIES			
Trade and other payables	5,924	9,564	27,840
Interest bearing bank and other borrowings	–	–	42,545
Other loans payable	–	–	4,562
Convertible bonds	–	23,485	–
Deposits received	22,854	22,890	23,500
Total current liabilities	28,778	55,939	98,447

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	31 December 2009 HK\$'000	31 December 2008 HK\$'000	31 December 2007 HK\$'000
NET CURRENT ASSETS	23,318	64,905	183,038
TOTAL ASSETS LESS CURRENT LIABILITIES	821,069	855,500	1,003,695
NON-CURRENT LIABILITIES			
Convertible bonds	237,000	202,113	212,770
Deferred tax liabilities	73,807	73,998	74,130
Total non-current liabilities	310,807	276,111	286,900
NET ASSETS	510,262	579,389	716,795
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	3,145	3,141	3,141
Equity component of convertible bonds	45,234	45,234	45,234
Reserves	186,610	245,608	349,391
	234,989	293,983	397,766
Non-controlling interests	275,273	285,406	319,029
TOTAL EQUITY	510,262	579,389	716,795

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****2. AUDITED FINANCIAL STATEMENTS**

Set out below are the audited consolidated financial statements of the Company as extracted from pages 30 to 98 of the annual report of the Company for the year ended 31 December 2009. References to page numbers in this appendix are to the page numbers of such annual report of the Company.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (Restated)
CONTINUING OPERATIONS			
Revenue	4	11,226	4,773
Cost of sales		(5,412)	(3,966)
Gross profit		5,814	807
Other income and gains	4	1,137	10,824
Selling and distribution costs		(4,731)	(464)
Administrative expenses		(41,821)	(40,318)
Other expenses		(34,362)	(9,833)
LOSS FROM OPERATING ACTIVITIES	5	(73,963)	(38,984)
Finance costs	6	(20,883)	(22,367)
Share of results of associates		(1,725)	(50,982)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS		(96,571)	(112,333)
Tax credit	8	191	132
Loss for the year from continuing operations		(96,380)	(112,201)
DISCONTINUED OPERATIONS			
Loss for the year from discontinued operations	9	–	(2,868)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(96,380)</u>	<u>(115,069)</u>
ATTRIBUTABLE TO:			
Equity holders of the Company	10	(86,247)	(103,783)
Non-controlling interests		(10,133)	(11,286)
		<u>(96,380)</u>	<u>(115,069)</u>
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic			
– Continuing operations		HK\$(0.27)	HK\$(0.32)
– Discontinued operations		–	HK\$(0.01)
		<u>HK\$(0.27)</u>	<u>HK\$(0.33)</u>
Diluted			
– Continuing operations		N/A	N/A
– Discontinued operations		N/A	N/A
		<u>N/A</u>	<u>N/A</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Statement of Financial Position***31 December 2009*

		31 December 2009	31 December 2008	1 January 2008
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)	(Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	13	17,205	17,523	11,899
Prepaid land lease payment	14	1,448	1,448	–
Prepayment for items of property, plant and equipment		3,128	–	–
Timber concessions and cutting rights	15	747,384	749,313	750,639
Investment property	16	–	–	1,450
Goodwill	17	7,624	7,624	–
Interests in associates	19	20,962	14,687	50,669
Available-for-sale investments		–	–	6,000
Total non-current assets		797,751	790,595	820,657
CURRENT ASSETS				
Inventories	20	6,920	6,859	8,736
Trade and other receivables	21	2,948	796	15,129
Prepayments and deposits		1,312	1,600	2,394
Current tax recoverable		–	–	1
Equity investments at fair value through profit or loss		–	–	914
Pledged bank deposits		–	–	16,864
Cash and cash equivalents	22	40,916	111,589	237,447
Total current assets		52,096	120,844	281,485
CURRENT LIABILITIES				
Trade and other payables	23	5,924	9,564	27,840
Interest bearing bank and other borrowings		–	–	42,545
Other loans payable		–	–	4,562
Convertible bonds	24	–	23,485	–
Deposits received		22,854	22,890	23,500
Total current liabilities		28,778	55,939	98,447

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

		31 December 2009	31 December 2008	1 January 2008
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)	<i>HK\$'000</i> (Restated)
NET CURRENT ASSETS		<u>23,318</u>	<u>64,905</u>	<u>183,038</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>821,069</u>	<u>855,500</u>	<u>1,003,695</u>
NON-CURRENT LIABILITIES				
Convertible bonds	24	237,000	202,113	212,770
Deferred tax liabilities	25	<u>73,807</u>	<u>73,998</u>	<u>74,130</u>
Total non-current liabilities		<u>310,807</u>	<u>276,111</u>	<u>286,900</u>
NET ASSETS		<u><u>510,262</u></u>	<u><u>579,389</u></u>	<u><u>716,795</u></u>
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	26	3,145	3,141	3,141
Equity component of convertible bonds	24	45,234	45,234	45,234
Reserves	28	<u>186,610</u>	<u>245,608</u>	<u>349,391</u>
		234,989	293,983	397,766
Non-controlling interests		<u>275,273</u>	<u>285,406</u>	<u>319,029</u>
TOTAL EQUITY		<u><u>510,262</u></u>	<u><u>579,389</u></u>	<u><u>716,795</u></u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to equity holders of the Company									
	Equity Component									
	Issued Capital	Share Premium	Contributed Surplus	Exchange Fluctuation Reserve	Share Option Reserve	of Convertible Bonds	Accumulated Losses	Non-controlling Total	interests	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 January 2008										
As previously reported	3,141	412,308	83,274	9,731	5,383	45,234	(202,520)	356,551	54,776	411,327
Prior year adjustment on cost of business combination (note 30)	-	41,400	-	-	-	-	-	41,400	-	41,400
Prior year adjustment on fair value of timber concessions and cutting rights acquired through business combinations (note 30)	-	-	-	-	-	-	(185)	(185)	264,253	264,068
As restated	3,141	453,708	83,274	9,731	5,383	45,234	(202,705)	397,766	319,029	716,795
Loss for the year (as restated)	-	-	-	-	-	-	(103,783)	(103,783)	(11,286)	(115,069)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(22,337)	(22,337)
Share options lapsed	-	-	-	-	(30)	-	30	-	-	-
31 December 2008 and										
1 January 2009 (restated)	3,141	453,708*	83,274*	9,731*	5,353*	45,234	(306,458)*	293,983	285,406	579,389
Loss for the year	-	-	-	-	-	-	(86,247)	(86,247)	(10,133)	(96,380)
Issued of new shares (note 26)	4	664	-	-	(166)	-	-	502	-	502
Equity-settled share option arrangement (note 27)	-	-	-	-	24,334	-	-	24,334	-	24,334
Disposal of a subsidiary	-	-	-	2,417	-	-	-	2,417	-	2,417
Share options lapsed	-	-	-	-	(471)	-	471	-	-	-
31 December 2009	3,145	454,372*	83,274*	12,148*	29,050*	45,234	(392,234)*	234,989	275,273	510,262

* These reserve accounts comprise the consolidated reserves of HK\$186,610,000 (2008: HK\$245,608,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows*For the year ended 31 December 2009*

	<i>Notes</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash used in operations	29(a)	(50,022)	(57,107)
Overseas taxes paid		–	(83)
Interest received		33	2,102
Interest paid		(9,481)	(10,051)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(59,470)	(65,139)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	29(b)	–	(7,406)
Purchases of items of property, plant and equipment	13	(2,630)	(7,716)
Increase in prepayment for items of property, plant and equipment		(3,128)	–
Capital injection in an associate		(8,000)	(15,000)
Investment in equity investments at fair value through profit or loss		(2,066)	–
Proceeds from disposals of:			
Equity investments at fair value through profit or loss		3,132	–
Subsidiaries, net	29(c)	987	(13)
Arising from deconsolidation of a subsidiary under winding up	29(d)	–	(341)
Decrease in pledged time deposits		–	16,864
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(11,705)	(13,612)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of new shares	26	502	–
Repayment of other loans		–	(4,562)
Repayment of interest-bearing bank borrowings		–	(36,289)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		502	(40,851)

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(70,673)	(119,602)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>111,589</u>	<u>231,191</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>40,916</u>	<u>111,589</u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>40,916</u>	<u>111,589</u>
	<u><u>40,916</u></u>	<u><u>111,589</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Statement of Financial Position***31 December 2009*

	<i>Notes</i>	31 December 2009 HK\$'000	31 December 2008 HK\$'000 (Restated)	1 January 2008 HK\$'000 (Restated)
NON-CURRENT ASSETS				
Interests in subsidiaries	18	464,229	468,248	459,703
CURRENT ASSETS				
Prepayments and deposits		100	226	253
Cash and bank balances	22	802	35,712	151,443
Total current assets		902	35,938	151,696
CURRENT LIABILITIES				
Trade and other payables		2,303	2,294	1,403
Convertible bonds	24	–	23,485	–
Total current liabilities		2,303	25,779	1,403
NET CURRENT (LIABILITIES)/ASSETS		(1,401)	10,159	150,293
TOTAL ASSETS LESS CURRENT LIABILITIES		462,828	478,407	609,996
NON-CURRENT LIABILITIES				
Convertible bonds	24	237,000	202,113	212,770
NET ASSETS		225,828	276,294	397,226
EQUITY				
Issued capital		3,145	3,141	3,141
Equity component of convertible bonds		45,234	45,234	45,234
Reserves	28	177,449	227,919	348,851
TOTAL EQUITY		225,828	276,294	397,226

Notes to the Financial Statements*31 December 2009***1. CORPORATE INFORMATION**

During the year, the Group was engaged in the following principal activities:

- Log harvesting, lumber processing, marketing and sales of logs and lumber products
- Property investment

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**Statement of compliance**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Non-controlling interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

Judgments and estimates

The preparation of financial statements in conformity with HKFRSs requires the directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors have considered the development, selection and disclosure of the Group's critical accounting policies and estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are as follows:

i) *Useful lives and depreciation of property, plant and equipment*

The Group determines the estimated useful lives and related depreciation charges of its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

ii) *Amortization of timber concessions and cutting rights*

Amortization is charged to profit or loss in the statement of comprehensive income on a unit of production basis over estimated useful lives of timber concessions. The Group determines the estimated useful lives and related amortization charges of its timber concessions. These estimates are based on the total proven and probable reserves of the total forestry exploitation volume or contractual period from the date of commencement of commercial exploitation.

iii) *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Such assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

iv) *Impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment. Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

v) *Net realizable value of inventories*

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and variable selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycle. The directors reassess the estimations at the end of each reporting period.

vi) *Impairment of trade and other receivables*

The Group makes impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of the customers and other debtors and the current market condition. The directors reassess the impairment at the end of each reporting period.

Impact of new and revised HKFRSs

The Group has adopted the following new and amended HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
HKFRS 8	Operating Segments
HKFRS 8 Amendments*	Amendments to HKFRS 8 Operating Segments – Disclosure of information about segment assets (early adopted)
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 18 Amendments*	Amendments to Appendix to HKAS 18 Revenue – Determining whether an entity is acting as a principal or as an agent
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
Amendments to HK(IFRIC)-Int 9	Embedded Derivatives
“Reassessment of Embedded Derivatives” and HKAS 39	
“Financial Instruments: Recognitions and Measurement”	
Amendments to HKFRS 7	Improving Disclosures about Financial Instruments
“Financial Instruments: Disclosures”	
Improvements to HKFRSs (October 2008)	Amendments to a number of HKFRSs

* Included in improvements to HKFRSs 2009 (as issued in May 2009)

The adoption of these new and amended HKFRSs and improvements has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements, except for the following:

HKFRS 8 Operating Segments

HKFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. Further details of segment information are included in note 3 to the financial statements.

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes to the titles of the main statements). The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense, either in one single statement, or in two linked statements. This revised standard also requires an entity to include three "statements of financial position" whenever the entity applies an accounting policy retrospectively or makes a retrospective restatement, or when it makes a reclassification. The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

Impact of Issued but not yet Effective HKFRSs

The Group has elected to present comprehensive income in one statement of income and comprehensive income. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the notes to the financial statements. The Group has provided a restated comparative set of financial position for the earliest comparative period, as it has made a retrospective restatement and retrospectively reclassified items in the financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters ²
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards ¹
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions ²
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁶
HKAS 18	Amendments Revenue ²
HKAS 24 (Revised)	Related Party Disclosures ⁵
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues ³
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items ¹
HK(IFRIC)-Int 14 Amendment	Prepayment of a Minimum Funding Requirement ⁵
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁴

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2009* which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 which are effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2010 although there is separate transitional provision for each standard.

¹ Effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2010

³ Effective for annual periods beginning on or after 1 February 2010

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2011

⁶ Effective for annual periods beginning on or after 1 January 2013

* Improvements to HKFRSs contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 18, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in profit or loss in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognized in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill at the end of each reporting period. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Timber concessions and cutting rights

Timber concessions licences and cutting rights acquired by the Group are stated at cost less accumulated amortization and any accumulated impairment losses. These licences and cutting rights give the Group rights to harvest trees in the allocated concession forests in designated areas in the Republic of Suriname. Amortization is charged on a unit of production basis over the estimated useful lives of timber concessions and cutting rights.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment property, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the statement of comprehensive income in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the statement of comprehensive income in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	18% – 20% or over the lease terms whichever is shorter
Plant and machinery	9% – 25%
Furniture and equipment	12.5% – 30%
Motor vehicles	18% – 33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of comprehensive income in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment property

Investment property is interest in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. The property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the end of each reporting period.

Gains or losses arising from changes in the fair values of the investment property is included in the statement of comprehensive income in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of the retirement or disposal.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each reporting period.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the impairment loss is recognized in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within “finance costs” in the statement of comprehensive income.

Gains and losses are recognized in profit or loss in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognized as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortized cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders’ equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognized.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost for the Group's log and lumber inventory is determined using standard costing basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Income Tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income, or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement associated with ownership, nor effective control over the goods sold;
- proceeds on disposals of investments, including interests in subsidiaries and investments in listed shares, when all conditions for disposal have been met and the risks and rewards of ownership have been transferred to the buyer;
- rental income, on the straight-line basis over the lease terms;
- interest income from a financial asset, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specially identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment transaction and the fair value of any identifiable goods or services at the grant date.

The cost of equity-settled transactions with eligible participants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss in the statement of comprehensive income for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payment, or is otherwise beneficial to the eligible participant as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction award are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits*Pension scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss in the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized.

All other borrowing costs are recognized in profit or loss in the statement of comprehensive income in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of each reporting period. All differences are taken to the statement of comprehensive income the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognized in the statement of comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in statement of changes in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of each reporting period and their statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the statement of comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as starting point for the identification of such segments.

The Group is currently engaged in the businesses of forestry and timber and property investments and the chief operating decision makers (i.e. the Company's directors) also review the segment information by these categories to allocate resources to segments and to assess their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

The Group's operating and reportable segments under HKFRS 8 are therefore as follows:

Forestry and timber – Log harvesting, lumber processing, marketing and sales of logs and lumber products

Property investments

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2009

	Property Investments <i>HK\$'000</i>	Forestry and Timber <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
SEGMENT REVENUE	471	10,755	11,226
SEGMENT RESULTS	(25)	(25,581)	(25,606)
Interest income and unallocated gains			71
Gain on disposal of listed investments			1,066
Loss on disposal of subsidiaries			(784)
Share option expenses			(24,334)
Corporate and other unallocated expenses			(24,376)
Finance costs			(20,883)
Share of results of associates			(1,725)
LOSS BEFORE TAX			(96,571)

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

For the year ended 31 December 2008 (Restated)

	Continuing operations			Discontinued operations	Consolidated
	Property Investments <i>HK\$'000</i>	Forestry and Timber <i>HK\$'000</i>	Sub-Total <i>HK\$'000</i>	Electronic Components and Products <i>HK\$'000</i>	
SEGMENT REVENUE	1,859	2,914	4,773	5,727	10,500
SEGMENT RESULTS	(1,890)	(27,692)	(29,582)	(2,272)	(31,854)
Interest income and unallocated gains			4,144	–	4,144
Gain on deconsolidation of a subsidiary under winding up			6,313	–	6,313
Gain on disposal of subsidiaries			367	–	367
Corporate and other unallocated expenses			(20,226)	–	(20,226)
Finance costs			(22,367)	(512)	(22,879)
Share of results of associates			(50,982)	–	(50,982)
LOSS BEFORE TAX			(112,333)	(2,784)	(115,117)

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the aggregate of the net invoiced value of goods and service sold, after allowance for returns and trade discounts and rental income.

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Rental income	471	1,859
Sales of logs and lumber	10,755	2,914
Attributable to continuing operations	11,226	4,773
Revenue from discontinued operations	–	5,727
	11,226	10,500
Other Income and Gains		
Bank interest income	33	2,102
Gain on disposal of listed investments	1,066	–
Gain on disposal of subsidiaries	–	367
Gain on deconsolidation of a subsidiary under winding up*	–	6,313
Other income	38	1,692
Exchange gain, net	–	350
	1,137	10,824

* During the prior year, on 5 December 2008, Lik Hang Electronic Components Limited, (“Lik Hang”), a 77.04% indirectly owned subsidiary of the Company at that time, entered into creditors’ voluntary winding up. In the opinion of the directors and according to the relevant laws and regulations, the Group no longer controlled Lik Hang. Accordingly, Lik Hang was not accounted for as a subsidiary by the Group. The net liabilities relating to Lik Hang, as a result of its deconsolidation from the Group were therefore not incorporated in these consolidated financial statements and resulted in a gain on deconsolidation of a subsidiary under winding up amounting to HK\$6,313,000.

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FINANCIAL INFORMATION OF THE GROUP

5. LOSS FROM OPERATING ACTIVITIES

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
The Group's loss from operating activities		
(including those attributable to discontinued operations)		
is arrived at after charging/(crediting):		
Gross rental income	(471)	(1,859)
Less: outgoings	158	558
Net rental income	(313)	(1,301)
Auditors' remuneration	860	1,080
Impairment of trade and other receivables	330	2,080
Loss on write-off of prepayments and deposits	–	21
Cost of inventories sold	3,527	9,796
Depreciation on property, plant and equipment	2,728	2,062
Fair value loss on an investment property	–	1,450
Loss on disposal of subsidiaries	784	–
Amortization of timber concessions and cutting rights*	1,885	657
Loss on disposal of property, plant and equipment	220	30
Minimum lease payments under operating lease for land and buildings	4,943	2,474
Employee benefit expenses (including Directors' emoluments):		
Wages and salaries	24,324	18,651
Retirement fund contributions	187	174
Employee share option expenses	12,241	–
	36,752	18,825

* Included in "Cost of Sales" in the consolidated statement of comprehensive income.

6. FINANCE COSTS

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	–	571
Interest on convertible bonds	20,883	22,308
	20,883	22,879
Attributable to discontinued operations	–	512
Attributable to continuing operations	20,883	22,367
	20,883	22,879

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the six (2008: five) directors were as follows:

2009

	Fees <i>HK\$'000</i>	Other emoluments			Total <i>HK\$'000</i>
		Salaries and Other Benefits <i>HK\$'000</i>	Contributions to Retirement Schemes <i>HK\$'000</i>	Share-based Payments <i>HK\$'000</i>	
Hui Tung Wah, Samuel	–	1,300	–	532	1,832
Sung Yan Wai, Petrus	–	650	12	532	1,194
Chau Chi Piu, Alex*	–	108	–	–	108
Wong Che Keung, Richard	120	–	–	106	226
Tong Yee Yung, Joseph	120	–	–	106	226
Wong Kin Chi	240	–	–	160	400
Total for 2009	480	2,058	12	1,436	3,986

* Mr. Chau was appointed and resigned as the director of the Company on 14 August 2009 and 11 January 2010, respectively.

2008

	Fees <i>HK\$'000</i>	Other emoluments			Total <i>HK\$'000</i>
		Salaries and Other Benefits <i>HK\$'000</i>	Contributions to Retirement Schemes <i>HK\$'000</i>	Share-based Payments <i>HK\$'000</i>	
Hui Tung Wah, Samuel	–	1,400	–	–	1,400
Sung Yan Wai, Petrus	–	877	12	–	889
Wong Che Keung, Richard	110	–	–	–	110
Tong Yee Yung, Joseph	110	–	–	–	110
Wong Kin Chi	240	–	–	–	240
Total for 2008	460	2,277	12	–	2,749

Emoluments paid to Independent Non-Executive Directors during the year were HK\$480,000 (2008: HK\$460,000).

There were no arrangements under which a director waived or agreed to waived any emolument during the year.

(b) Employees' emoluments

During the year, the five highest paid individuals included one director (2008: two directors), details of those emoluments are set out above. The emoluments of the remaining four (2008: three) highest paid individuals were as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Salaries and other benefits	3,873	3,451
Contributions to retirement schemes	36	24
Share-based payments	7,132	–
	<u>11,041</u>	<u>3,475</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2009 <i>Number of Employees</i>	2008 <i>Number of Employees</i>
HK\$500,001 to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 or above	2	–
	<u>4</u>	<u>3</u>

8. TAX

No provision for Hong Kong profits tax has been made, the Group has tax losses brought forward which are available for off-set against the estimated assessable profits for the year. Taxes on profits assessable elsewhere last year have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group 2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (Restated)
Current year provision:		
Hong Kong	–	–
Elsewhere	–	84
	<u>–</u>	<u>84</u>
Deferred tax (<i>note 25</i>)	(191)	(132)
	<u>(191)</u>	<u>(48)</u>
Total tax credit for the year	<u>(191)</u>	<u>(48)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

The reconciliation between loss before taxation and taxation in the consolidated statement of comprehensive income is as follows:

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Loss before taxation	(96,571)	(112,333)
Tax at the domestic income tax rate of 16.5% (2008: 16.5%)	(15,934)	(18,535)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	923	909
Tax effect of expenses that are not deductible in determining taxable profit	18,223	9,032
Profit and loss attributable to associates	284	8,412
Tax effect of income that is not taxable in determining taxable profit	(4,632)	(798)
Tax effect of unused tax losses not recognized	945	932
Taxation	(191)	(48)
Represented by:		
Tax credit attributable to continuing operations	(191)	(132)
Tax charge attributable to discontinued operations	—	84
	(191)	(48)

9. DISCONTINUED OPERATIONS

The results of the discontinued operations for 2008 are presented below:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	—	5,727
Other revenue	—	2,632
Expenses	—	(10,631)
Finance costs	—	(512)
Loss before tax from discontinued operations	—	(2,784)
Tax charge	—	(84)
Loss for the year from discontinued operations	—	(2,868)

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The net cash flows incurred by the discontinued operations for 2008 are as follows:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i>
Net cash generated from operating activities	–	24,952
Net cash generated from investing activities	–	16,864
Net cash used in financing activities	–	(41,644)
Total net cash inflow from discontinued operations	–	172

10. NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss attributable to equity holders dealt with in the financial statements of the Company is HK\$75,302,000 (2008: HK\$120,932,000) (note 28).

11. DIVIDEND

No dividend was proposed or paid for the year (2008: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the year attributable to equity holders of the Company, and the weighted average number of shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2009 and 2008 have not been disclosed, as the options and the convertible bonds outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

The calculations of basic and diluted loss per share are based on:

	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (Restated)
Loss		
Loss attributable to equity holders of the Company, used in the basic loss per share calculation:		
From continuing operations	(86,247)	(100,915)
From discontinued operations	–	(2,868)
	(86,247)	(103,783)
	Number of shares	
	2009	2008
Shares		
Weighted average number of shares in issue during the year used in the basic loss per share calculation	314,147,234	314,089,152

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FINANCIAL INFORMATION OF THE GROUP

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold Improvements <i>HK\$'000</i>	Plant and Machinery <i>HK\$'000</i>	Furniture and Equipment <i>HK\$'000</i>	Motor Vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost						
1 January 2008	276	10,133	1,246	3,837	–	15,492
Additions	673	5,973	704	366	–	7,716
Disposals	(1)	(1)	(1)	(141)	–	(144)
31 December 2008 and 1 January 2009	948	16,105	1,949	4,062	–	23,064
Additions	70	142	675	35	1,708	2,630
Disposals	–	(204)	(19)	(121)	–	(344)
31 December 2009	<u>1,018</u>	<u>16,043</u>	<u>2,605</u>	<u>3,976</u>	<u>1,708</u>	<u>25,350</u>
Accumulated depreciation						
1 January 2008	33	2,189	431	940	–	3,593
Charge for the year	286	1,117	361	298	–	2,062
Disposals	(1)	(1)	(1)	(111)	–	(114)
31 December 2008 and 1 January 2009	318	3,305	791	1,127	–	5,541
Charge for the year	357	1,509	454	408	–	2,728
Disposals	–	(99)	(5)	(20)	–	(124)
31 December 2009	<u>675</u>	<u>4,715</u>	<u>1,240</u>	<u>1,515</u>	<u>–</u>	<u>8,145</u>
Net book value						
31 December 2009	<u>343</u>	<u>11,328</u>	<u>1,365</u>	<u>2,461</u>	<u>1,708</u>	<u>17,205</u>
31 December 2008	<u>630</u>	<u>12,800</u>	<u>1,158</u>	<u>2,935</u>	<u>–</u>	<u>17,523</u>

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	Group <i>HK\$'000</i>
Carrying amount at 1 January 2008	–
Addition through acquisition of a subsidiary	1,448
Carrying amount at 31 December 2008 and 2009	1,448

The leasehold land is held under a long term lease and is situated outside Hong Kong.

15. TIMBER CONCESSIONS AND CUTTING RIGHTS

	Group <i>HK\$'000</i> (Restated)
Cost	
1 January 2008, 31 December 2008 and 31 December 2009	751,012
Accumulated amortization	
1 January 2008	373
Charge for the year	1,326
31 December 2008 and 1 January 2009	1,699
Charge for the year	1,929
31 December 2009	3,628
Net carrying amount	
31 December 2009	747,384
31 December 2008	749,313
1 January 2008	750,639

16. INVESTMENT PROPERTY

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
1 January, at valuation	–	1,450
Less: Fair value loss	–	(1,450)
31 December	–	–
Analyzed by lease term and geographical location:		
Medium term leasehold properties situated outside Hong Kong	–	–

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17. GOODWILL

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
1 January	7,624	–
Additions through acquisition of a subsidiary	–	7,624
31 December	<u>7,624</u>	<u>7,624</u>

The goodwill is attributable to the acquisition of the 100% equity interest in Dynasty Forestry Industry N.V. (“Dynasty”) by Beach Paradise N.V., a 60.39% indirectly owned subsidiary of the Company.

Impairment testing of goodwill

The directors allocated the entire goodwill of HK\$7,624,000 to the cash generating unit of forestry and timber business segment for the purpose of testing its impairment. The recoverable amount of cash generating unit is determined based on value-in-use calculations. The key assumptions for the value-in-use calculations are based upon the discount rates, and budgeted profit margin and revenue during the forecast period. The budgeted profit margin, revenue and growth rates are based on judgment of the directors about the forestry and timber business segment’s ability to process and to generate economic income stream through the sales of the timber products to its customers. The projections (including profit margin, revenue and the growth rates) are based on the directors’ anticipations of the most likely actions which will be taken by the Dynasty Group in the operation of the business with reference to past performance, sustainable annual allowable cut, and expectations for future market development. Key assumptions for the value-in-use calculations are as follows:

Product price increment	6% to 12%
Discount rate	12%

For the estimation of the product price increment rate and the long term growth rate, the directors have taken the growth of the forestry and timber product industry and the global economy as a whole.

The directors of the Company are of the opinion that based on the value-in-use calculations prepared in accordance with the above key assumptions, the recoverable amount of the cash generating unit exceeds the aggregate carrying amount of goodwill arising from the acquisition of the Dynasty Group in the consolidated statement of financial position at 31 December 2009 and, therefore, no impairment loss is recognized.

18. INTERESTS IN SUBSIDIARIES

	31 December	Company	1 January
	2009	31 December	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)	(Restated)
Unlisted shares, at cost	1	1	1
Due from subsidiaries	1,008,056	992,075	895,485
	1,008,057	992,076	895,486
Less: Impairment	(543,828)	(523,828)	(435,783)
	<u>464,229</u>	<u>468,248</u>	<u>459,703</u>

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The amounts due from subsidiaries are unsecured, interest-free and there are no fixed terms of repayment.

An allowance for amounts due from subsidiaries of HK\$543,828,000 (2008: HK\$523,828,000) was recognized as at 31 December 2009 because the balances due from subsidiaries with reference to the net assets value of the respective subsidiaries were estimated to be less than their carrying amounts. Accordingly, the carrying amount of the related investment costs and amounts due from them is reduced to their recoverable amounts.

Particulars of the principal subsidiaries are as follows:

Name of Subsidiary	Place of Incorporation/ Registration and Operation	Total Issued Ordinary/ Registered and Paid-up Capital	Equity Interest Owned by the Group			Principal Activities
			2009	2008	2007	
Directly held:						
Hai Yang Investment Limited	BVI	US\$1	100%	100%	100%	Investment holding
Team Talent Limited	BVI	US\$1	100%	100%	100%	Investment holding
Silver Mount Group Limited	BVI	US\$1	100%	100%	100%	Investment holding
Indirectly held:						
Barnet Consultancy Limited	BVI	US\$1	100%	100%	100%	Provision of corporate services
Greenheart Resources Holdings Limited	BVI	–	60.39%	60.39%	60.39%	Investment holding
Octagon International N.V.	Suriname	–	60.39%	60.39%	60.39%	Log harvesting and sales of logs
Superb Manufacturing Company Limited	BVI	US\$1	60.39%	60.39%	60.39%	Investment holding
Superb Able Industrial Limited	BVI	US\$1,155	60.39%	60.39%	60.39%	Sales of logs
Greenheart Resources (Hong Kong) Company Limited	HK	HK\$1	60.39%	60.39%	60.39%	Provision of administrative and management services
Top Wood Holdings Limited	BVI	US\$1	60.39%	60.39%	60.39%	Trading of equipment
Epro N.V.	Suriname	US\$18	60.39%	60.39%	60.39%	Timber concession holding
Dynasty Forestry Industry N.V.	Suriname	US\$1,340	60.39%	60.39%	–	Timber concession holding and manufacturing of lumber
Beach Paradise N.V.	Suriname	US\$364	60.39%	60.39%	60.39%	Manufacturing and sales of lumber

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The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN ASSOCIATES

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	20,962	14,687
	20,962	14,687
Less: Impairment	—	—
	20,962	14,687

Particulars of the Group's principal associates are as follows:

Name of Associate	Class of Shares Held	Place of Incorporation/Registration and Operation	Equity Interest Owned by the Group		Principal Activities
			2009	2008	
TGX Capital Limited (Formerly known as South America Investments Limited)	Ordinary	BVI	46%	45.5%	Investment holding
PVP Limited	Ordinary	BVI	—	37.2%	Investment holding
Princeton Venture Partners Limited	Ordinary	BVI	—	37.2%	Investment holding and consultancy

The above table lists the principal associates of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	—	141
Loss for the year	(3,741)	(163,131)
Non-current assets	30	—
Current assets	45,694	32,577
Current liabilities	(153)	(1,073)

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20. INVENTORIES

	31 December 2009 HK\$'000	Group 31 December 2008 HK\$'000 (Restated)	1 January 2008 HK\$'000 (Restated)
Logs and lumber	6,920	6,859	8,736

21. TRADE AND OTHER RECEIVABLES

	Group 2009 HK\$'000	2008 HK\$'000
Trade receivables	2,639	2,550
Other receivables	639	326
	3,278	2,876
Impairment	(330)	(2,080)
	2,948	796

The Group's trading terms with its customers are mainly letters of credit at sight or on open accounts with credit terms of 30 days to 45 days customers, where 20% – 30% deposit is normally required. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group 2009 HK\$'000	2008 HK\$'000
Current	951	796
One to three months	1,680	–
More than three months	317	–
	2,948	796

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of HK\$330,000 (31 December 2008: HK\$2,080,000). The impairment recognized represents the receivable amounts written off in respect of rental income receivable. The Group does not hold any collateral over these balances.

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	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	2,080	5,149
Impairment losses recognized	330	2,080
Amounts written off as uncollectible	(2,080)	(5,149)
At 31 December	330	2,080

The aging analysis of the trade and other receivables that are neither individually nor collectively considered to be impaired is as follows:

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	1,568	796
Less than three months past due	1,078	–
Over three months past due	302	–
	2,948	796

Receivables that were neither past due nor impaired relate to a wide range of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The directors consider that the carrying amount of trade and other receivables approximate their fair value.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	40,916	81,276	802	5,399
Time deposits	–	30,313	–	30,313
Cash and cash equivalents	40,916	111,589	802	35,712

Certain cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

23. TRADE AND OTHER PAYABLES

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	104	468
Other payables	5,820	9,096
	<u>5,924</u>	<u>9,564</u>

The aging analysis of trade and other payables at the end of reporting period is as follows:

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	2,583	3,663
One to three months	—	—
More than three months	3,341	5,901
	<u>5,924</u>	<u>9,564</u>

24. CONVERTIBLE BONDS

On 20 August 2007, the Group entered into an agreement with the shareholders of Greenheart Resources Holdings Limited (“Greenheart”) whereby the Group agreed to acquire a 60% interest in Greenheart (“Acquisition”) at a total consideration of HK\$375,000,000 to be satisfied partially in cash of HK\$18,000,000 and partially by the issue of HK\$120,000,000 ordinary shares of the Company of HK\$0.01 each (“Consideration Shares”) at HK\$2.00 per Consideration Share and HK\$237,000,000 by the issue of convertible bonds (“Convertible Bonds”) which are convertible into shares of the Company of HK\$0.01 each at an initial conversion price of HK\$2.00 (subject to adjustment) per conversion share during the period commencing from the completion date of the Acquisition (i.e. 8 November 2007).

The Convertible Bonds carry an interest at 4% per annum payable by the Company per semi-annually in arrears.

On 9 November 2009, followed by the approval from the independent shareholders in a special general meeting, the terms of the Convertible Bonds issued by the Company in 2007 have been altered, where the repayment date was postponed to 8 November 2010.

After comparing the discounted present value of the remaining cash flows of the existing Convertible Bonds with the discounted present value of the cash flows under the new terms, the effect of such alteration is considered as not substantial and modification accounting is adopted. As a result, the alteration of term is dealt with by adjusting the effective interest rate of the Convertible Bonds based on the carrying amount of the original balance and the revised cash flows. The adjusted effective interest rate on the Convertible Bonds is the same as the coupon rate of the bond at 4% per annum.

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As written confirmation was obtained from Sino-Forest, which is the ultimate beneficial owner of HK\$212,328,000 Convertible Bonds after its acquisition of HK\$167,631,000 Convertible Bonds from the original bondholders on 6 February 2009, for its agreement to enter into discussion with the Company which may result in Sino-Forest supporting the Company in proposing to the holders of the Convertible Bonds a modification to the existing terms of the Convertible Bonds, which may include a further extension of the maturity date of the Convertible Bonds from 9 November 2010 to a date not earlier than 9 November 2011, pursuant to the Convertible bond instrument, alteration of terms could be induced upon obtaining consents from bondholders with over 50% of beneficial interest of the Convertible bond, as such, the total balance of the Convertible Bonds was classified as non-current liabilities as at 31 December 2009.

No conversion of Convertible Bonds has occurred since inception up to 31 December 2009.

	Group and Company	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Fair value of the Convertible Bonds upon issue	256,849	256,849
Equity component	(45,234)	(45,234)
Liability component	211,615	211,615
Interest charge	45,748	24,865
Interest paid	(20,363)	(10,882)
	<u>237,000</u>	<u>225,598</u>
Analyzed into:		
Current	–	23,485
Non-current	<u>237,000</u>	<u>202,113</u>
	<u>237,000</u>	<u>225,598</u>

25. DEFERRED TAX

The movements in deferred tax liabilities during the years are as follows:

	Fair Value Adjustment Arising from Acquisition of Subsidiaries
	<i>HK\$'000</i>
At 1 January 2008	–
Adjustment on fair value of the timber concessions and cutting rights	<u>74,130</u>
As restated	74,130
Deferred tax credited to the statement of comprehensive income during the year (note 8)	<u>(132)</u>
At 31 December 2008 (Restated)	<u>73,998</u>

		Fair Value Adjustment Arising from Acquisition of Subsidiaries <i>HK\$'000</i>
At 1 January 2009 (Restated)		73,998
Deferred tax credited to the statement of comprehensive income during the year (<i>note 8</i>)		(191)
		<u>73,807</u>
At 31 December 2009		<u><u>73,807</u></u>
26. SHARE CAPITAL		
Shares		
	Number of Ordinary Shares of HK\$0.01 each	Amount <i>HK\$'000</i>
Authorized:		
1 January 2008, 31 December 2008 and 2009	15,000,000,000	150,000
Issued and fully paid:		
1 January 2008, 31 December 2008	314,089,152	3,141
Issue of ordinary shares	450,000	4
	<u>314,539,152</u>	<u>3,145</u>
31 December 2009	<u><u>314,539,152</u></u>	<u><u>3,145</u></u>
(i)	In 2009, 450,000 share options pursuant to the Company's share option scheme were exercised resulting in the issue of 450,000 new ordinary shares for a total cash consideration of approximately HK\$502,000.	

27. SHARE OPTION SCHEME

At a special general meeting held on 22 March 2002, a share option scheme (the "Scheme") in compliance with the Listing Rules was approved for adoption by the Company. Please refer to the Report of the Directors for details.

At 31 December 2009, there were 35,120,000 share options outstanding under the Scheme.

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The number and weighted average exercise prices of share options outstanding during the year are as follows:

	2009		2008	
	Weighted Average Exercise Price		Weighted Average Exercise Price	
	<i>HK\$ per share</i>	<i>Number of Options</i>	<i>HK\$ per share</i>	<i>Number of Options</i>
Outstanding at the beginning of the year	1.43	14,074,000	1.41	14,818,000
Granted during the year	1.65	22,860,000	–	–
Exercised during the year	1.11	(450,000)	–	–
Lapsed/Forfeited during the year	1.45	(1,364,000)	1.01	(744,000)
Outstanding during the year	1.58	35,120,000	1.43	14,074,000
Exercisable at the end of the year	1.58	35,120,000	1.43	14,074,000

The options outstanding at 31 December 2009 had an exercise price of HK\$0.46, HK\$0.80, HK\$1.36, HK\$1.744 and HK\$1.65 (2008: HK\$0.46, HK\$0.80, HK\$1.36 and HK\$1.744) and a weighted average remaining contractual life of 3.83 years (2008: 3.41 years).

Valuation of share options

The fair values of the options granted during the year on 5 August 2009 were calculated using the Black-Scholes Option Pricing Model. The inputs to the model were as follows:

Share price at the date of grant	HK\$1.65
Exercise price	HK\$1.65
Risk free rate	1.076%
Expected life	2.5 years
Expected volatility	128.28%

The Group recognized the total expense of HK\$24,334,000 in relation to share options granted by the Company in 2009. No such expenses were recognized in 2008.

The Black-Scholes option pricing model was developed to estimate the fair value of the share options. The value of an option varies with different variables of certain subjective assumptions. Any changes in variables and assumptions so adopted may materially affect the estimation of the fair value of an option.

Options which are lapsed prior to their exercise date are deleted from the register of outstanding options.

28. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

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Company

	Share Premium HK\$'000	Contributed Surplus HK\$'000	Share Option Reserve HK\$'000	Equity Component of Convertible Bonds HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
1 January 2008:	412,308	125,376	5,383	45,234	(235,616)	352,685
Prior year adjustment on cost of business combination (<i>note 30</i>)	41,400	–	–	–	–	41,400
As restated	453,708	125,376	5,383	45,234	(235,616)	394,085
Loss for the year	–	–	–	–	(120,932)	(120,932)
Share options lapsed	–	–	(30)	–	30	–
31 December 2008 and 1 January 2009 (Restated)	453,708*	125,376*	5,353*	45,234	(356,518)*	273,153
Loss for the year	–	–	–	–	(75,302)	(75,302)
Issue of new shares (<i>note 26</i>)	664	–	(166)	–	–	498
Equity-settled share option arrangement (<i>note 27</i>)	–	–	24,334	–	–	24,334
Share options lapsed	–	–	(471)	–	471	–
31 December 2009	454,372*	125,376*	29,050*	45,234	(431,349)*	222,683

The Company's contributed surplus, which arose from the Group reorganization on 2 July 1991, represents the difference between the nominal value of the Company's shares issued under the reorganization scheme, in exchange for the shares in the subsidiaries and the fair value of the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is distributable to shareholders. The Companies Act of Bermuda also stipulates that a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium account.

* These reserve accounts comprise the reserves of HK\$177,449,000 (2008: HK\$227,919,000) in the Company's statement of financial position presented on page 36.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of loss before taxation to net cash used in operations

	Group	
	2009	2008
	HK\$'000	HK\$'000
		(Restated)
Loss before taxation		
– Continuing operations	(96,571)	(112,333)
– Discontinued operations	–	(2,784)
Adjustments for:		
Loss/(profit) on disposal of subsidiaries	784	(1,898)
Gain on deconsolidation of a subsidiary under winding up	–	(6,313)
Interest income	(33)	(2,102)
Interest expenses	20,883	22,879
Depreciation on property, plant and equipment	2,728	2,062
Amortization of timber concessions and cutting rights	1,885	657
Impairment of trade and other receivables	330	2,080
Impairment on investment property	–	1,450
Loss on disposal of property, plant and equipment	220	30
Profit on disposal of listed investments	(1,066)	–
Share options expenses	24,334	–
Share of results of associates	1,725	50,982
Operating cash flows before movements of working capital	(44,781)	(45,290)
(Increase)/decrease in inventories	(17)	2,546
Increase in trade and other receivables	(2,276)	(7,506)
Increase in prepayments and deposits	–	(482)
Decrease in trade and other payables	(2,912)	(5,765)
Decrease in deposits received	(36)	(610)
Cash used in operations	(50,022)	(57,107)

(b) Business Combination

Group

	2008	
	Previous Carrying Amount <i>HK\$'000</i>	Fair Value Recognized on Acquisition <i>HK\$'000</i>
Fair value of net assets acquired:		
Prepaid land lease payments	1,907	1,448
Cash and bank balances	10	10
	1,917	1,458
Goodwill on acquisition	–	7,624
	1,917	9,082
Satisfied by:		
Cash paid		7,416
Prepayments and deposits		1,276
Other payables		390
		9,082

Analysis of net outflow of cash and cash equivalents in respect of the acquired subsidiaries:

	2008 <i>HK\$'000</i>
Cash	(7,416)
Cash and bank balances of acquired subsidiaries	10
	(7,406)

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(c) Disposal of subsidiaries

	Group	
	2009	2008
	HK\$'000	HK\$'000
Net assets disposed of:		
Equity investments at fair value through profit or loss	–	914
Trade and other receivables	–	19,759
Available-for-sale investments	–	6,000
Exchange reserve	2,417	–
Prepayment and deposit	82	–
Cash and bank balances	3,019	14
Trade and other payables	(728)	(6,247)
Non-controlling interests	–	(22,337)
	<u>4,790</u>	<u>(1,897)</u>
(Loss)/gain on disposal of subsidiaries	<u>(784)</u>	<u>1,898</u>
	<u>4,006</u>	<u>1</u>
(Loss)/gain on disposal of subsidiaries represented by:		
Attributable to continuing operations	(784)	367
Attributable to discontinued operations	–	1,531
	<u>(784)</u>	<u>1,898</u>
Analysis of net inflow/(outflow) of cash and cash equivalents in respect of the disposal subsidiaries:		
Cash received	4,006	1
Cash and bank balances of subsidiaries disposed of	<u>(3,019)</u>	<u>(14)</u>
	<u>987</u>	<u>(13)</u>

(d) Deconsolidation of subsidiary

	2009	2008
	HK\$'000	HK\$'000
Net assets deconsolidated:		
Cash and bank balances	–	341
Trade and other payables	–	(6,654)
	<u>–</u>	<u>(6,313)</u>
Net liabilities deconsolidated	<u>–</u>	<u>(6,313)</u>
Cash and bank balances of deconsolidated subsidiaries	<u>–</u>	<u>(341)</u>

30. RE-STATEMENT OF COMPARATIVE FINANCIAL INFORMATION – ACQUISITION OF GREENHEART RESOURCES HOLDINGS LIMITED (“GREENHEART”) DURING YEAR ENDED 31 DECEMBER 2007

During the year ended 31 December 2007, the Group acquired 60% of the issued share capital of Greenheart (“2007 Acquisition”). The 2007 Acquisition was accounted for using the purchase method of accounting and the excess of the cost of the acquisition over the net fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed was initially recorded as goodwill of HK\$361,706,000 in the consolidated statement of financial position as at 31 December 2007.

The fair value of the assets acquired and liabilities assumed in the 2007 Acquisition were finalized in the year ended 31 December 2009 in accordance with the requirements of HKFRS 3 “Business Combinations” as follows:

	Finalized Fair Value Recognized HK\$'000 (Restated)	Adjustments HK\$'000	Previously Reported Fair Value HK\$'000
Fair value of assets acquired and liabilities assumed:			
Timber concessions and cutting rights	751,012	741,672 (i)	9,340
Property, plant and equipment	11,544	–	11,544
Inventories	6,580	–	6,580
Prepayments and deposits	1,335	–	1,335
Trade and other receivables	708	–	708
Cash and bank balances	84,718	–	84,718
Trade and other payables	(5,094)	–	(5,094)
Tax payables	(3,352)	–	(3,352)
Deposits received	(23,492)	–	(23,492)
Deferred tax liabilities	(74,167)	(74,167) (i)	–
Non-controlling interests	(296,997)	(264,399) (iii)	(32,598)
	<u>452,795</u>	<u>403,106</u>	<u>49,689</u>
Goodwill on acquisition	<u>–</u>	<u>(361,706) (i)</u>	<u>361,706</u>
	<u><u>452,795</u></u>	<u><u>41,400</u></u>	<u><u>411,395</u></u>
Represented by:			
Cash paid	18,000	–	18,000
Direct expenses incurred	12,390	–	12,390
Long term investment	4,156	–	4,156
Ordinary shares issued	161,400	41,400 (ii)	120,000
Convertible Bonds issued	256,849	–	256,849
	<u>452,795</u>	<u>41,400</u>	<u>411,395</u>

In finalizing the 2007 Acquisition, the Directors have conducted a detailed analysis of the characteristics of the business of Greenheart and concluded that the fair value of the timber concession and cutting rights should have been calculated based on an discounted cash flow analysis, and such method meets the recognition and measurement requirement of intangible assets according to Hong Kong Accounting Standard 38 “Intangible Assets” at the date of the acquisition.

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The retrospective and adjustments to the 2007 Acquisition are as follows:

- i) The recognition of the identifiable intangible asset of timber concessions and cutting rights at fair value at date of acquisition, and deferred tax arising from the fair value adjustment.
- ii) The fair value of consideration shares issued being determined based on the market value at the date of exchange of the acquisition.
- iii) The minority share of the net fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed.

The following tables disclose the adjustments that have been made as a result of retrospective restatements to the consolidated statement of comprehensive income and the consolidated statement of financial position, and other significant related disclosure items as previously reported for the year ended 31 December 2007.

(a) Effect on the consolidated statement of comprehensive income for the year ended 31 December 2008:

		Year ended 31 December 2008		
		Equity Holders of the Company	Non-controlling Interests	Total Equity
	Notes	HK\$'000	HK\$'000	HK\$'000
Loss after taxation (as previously reported)		(103,528)	(11,031)	(114,559)
Adjustments on cost of sales	30(g)(iii)	(387)	(255)	(642)
Adjustments on tax credit	30(g)(iii)	132	–	132
Loss after taxation (as restated)		<u>(103,783)</u>	<u>(11,286)</u>	<u>(115,069)</u>
Effect on earnings per share		<u>HK\$0.0008</u>		

(b) Effect on the consolidated statement of comprehensive income for the year ended 31 December 2007:

		Year ended 31 December 2007		
		Equity Holders of the Company	Non-controlling Interests	Total Equity
	Notes	HK\$'000	HK\$'000	HK\$'000
Loss after taxation (as previously reported)		(130,644)	(13,872)	(144,516)
Adjustments on cost of sales	30(g)(iii)	(222)	(146)	(368)
Adjustments on tax credit	30(g)(iii)	37	–	37
Loss after taxation (as restated)		<u>(130,829)</u>	<u>(14,018)</u>	<u>(144,847)</u>
Effect on earnings per share		<u>HK\$0.001</u>		

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(c) Effect on the consolidated statement of financial position as at 31 December 2008:

		As Previously Reported	Adjustments	As Restated
	Notes	HK\$'000	HK\$'000	HK\$'000
Timber concessions and cutting rights	30(g)(i)	9,308	740,005	749,313
Goodwill	30(g)(i),(iii)	369,331	(361,707)	7,624
Inventories	30(g)(iii)	6,201	658	6,859
Share premium	30(g)(ii)	412,308	41,400	453,708
Accumulated losses	30(g)(iii)	(306,018)	(440)	(306,458)
Deferred tax liabilities	30(g)(i),(iii)	–	(73,998)	(73,998)
Non-controlling interests	30(g)(i),(iii)	21,408	263,998	285,406

(d) Effect on the consolidated statement of financial position as at 1 January 2008:

		As Previously Reported	Adjustments	As Restated
	Notes	HK\$'000	HK\$'000	HK\$'000
Timber concessions and cutting rights	30(g)(i)	9,333	741,306	750,639
Goodwill	30(g)(i),(iii)	361,707	(361,707)	–
Share premium	30(g)(ii)	412,308	41,400	453,708
Accumulated losses	30(g)(iii)	(202,520)	(185)	(202,705)
Deferred tax liabilities	30(g)(i),(iii)	–	(74,130)	(74,130)
Non-controlling interests	30(g)(i),(iii)	54,776	264,253	319,029

(e) Effect on the company statement of financial position as at 31 December 2008:

		As Previously Reported	Adjustments	As Restated
	Notes	HK\$'000	HK\$'000	HK\$'000
Interests in subsidiaries	30(g)(ii)	426,848	41,400	468,248
Share premium	30(g)(ii)	412,308	41,400	453,708

(f) Effect on the company statement of financial position as at 1 January 2008:

		As Previously Reported	Adjustments	As Restated
	Notes	HK\$'000	HK\$'000	HK\$'000
Interests in subsidiaries	30(g)(ii)	418,303	41,400	459,703
Share premium	30(g)(ii)	412,308	41,400	453,708

(g) Summary of the retrospective adjustments**(i) Timber concessions and cutting rights**

The Group has adopted the valuation derived from discounted cash flows method to arrive at the fair value of the timber concessions and cutting rights at the date of acquisition, and accordingly retrospective adjustments have been made to timber concessions and cutting rights, goodwill, deferred tax, non-controlling interests and inventories in the consolidated statements of financial position as at 31 December 2008 and 1 January 2008, and the cost of sales for the year ended 31 December 2008 and 2007.

(ii) Cost of business combination

The fair value of consideration shares issued for the 2007 Acquisition was determined based on the market price of the underlying shares at the date of agreement, instead of the market price at date of exchange. Accordingly, retrospective adjustments have been made to share premium and goodwill in the consolidated statements of financial position, and share premium and interests in subsidiaries in the Company statements of financial position, as at 31 December 2008 and 1 January 2008.

(iii) Consequential adjustments

These adjustments have been made as a result of the retrospective restatements outlined above.

31. COMMITMENTS

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total minimum commitments under non-cancellable operating lease for land and building due:		
As lessee		
Within one year	2,065	2,701
In the second to fifth years, inclusive	71	1,832
	<u>2,136</u>	<u>4,533</u>
As lessor		
Within one year	–	471
In the second to fifth years, inclusive	–	–
	<u>–</u>	<u>471</u>

32. RELATED PARTY TRANSACTIONS**Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's Directors and highest paid employees as disclosed in note 7, is as follows:

	Group	
	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Short-term employee benefits	6,411	6,188
Post-employment benefits	48	36
Equity compensation benefits	8,568	–
	<u>15,027</u>	<u>6,224</u>
	<u><u>15,027</u></u>	<u><u>6,224</u></u>

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

	Group	Company
	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets – loans and receivables		
Trade and other receivables	2,948	–
Cash and bank balances	40,916	802
	<u>43,864</u>	<u>802</u>
	<u><u>43,864</u></u>	<u><u>802</u></u>
	Group	Company
	2009	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial liabilities at amortized cost		
Trade and other payables	5,924	2,303
Convertible bonds	237,000	237,000
	<u>242,924</u>	<u>239,303</u>
	<u><u>242,924</u></u>	<u><u>239,303</u></u>

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	Group 2008	Company 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets – loans and receivables		
Trade and other receivables	796	–
Cash and bank balances	111,589	35,712
	<u>112,385</u>	<u>35,712</u>
	Group 2008	Company 2008
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial liabilities at amortized cost		
Trade and other payables	9,564	2,294
Convertible bonds	225,598	225,598
	<u>235,162</u>	<u>227,892</u>

34. FINANCIAL RISK AND CAPITAL MANAGEMENT AND ESTIMATION OF FAIR VALUES

a) Financial risk management

The Group's activities expose it to a variety of financial risks, which include market risk (including foreign currency risk and interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group does not have any written risk management policies and guidelines. The directors monitor the financial risk management of the Group and take such measures as considered necessary from time to time to minimize such financial risks.

i) Foreign currency risk management

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars. The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates. The Group mitigates this risk by conducting the sales and purchases transactions in the same currency, whenever possible.

Foreign exchange rate sensitivity analysis

As United States dollars are pegged to Hong Kong dollars, in the opinion of the directors, the Group does not expect any significant movement in this exchange rate.

ii) *Interest rate risk management*

Convertible Bonds with fixed interest rates are the only financial liability of the Group. Therefore, the Group is not exposed to significant fair value interest rate risk due to the short maturity of the items. The Group currently does not have an interest rate hedging policy and will consider enter into interest rate hedging should the need arise.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined assuming that a change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rates for financial instruments in existence at that date. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, there would be no impact on the Group's loss for the years ended 31 December 2009 and 31 December 2008 and the accumulated losses as of 31 December 2009 and 31 December 2008.

iii) *Credit risk management*

Credit risk arises from the possibility that customers may not be able to settle obligations within the normal terms of transactions. The Group performs ongoing credit evaluation of the debtors' financial condition and maintains an account for allowance for doubtful trade and other accounts receivable based upon the expected collectibles of all trade and other accounts receivable.

The maximum exposure to credit risk is therefore represented by the carrying amount of each financial asset as stated in the statement of financial position.

Cash is held with financial institutions of good standing.

iv) *Liquidity risk management*

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Prudent liquidity risk management implies maintaining sufficient cash. The Group monitors and maintains a level of bank balances deemed adequate to finance the Group's operations.

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group	2009	
	Within 1 year HK\$'000	Total HK\$'000
Trade and other payables	5,924	5,924
Convertible bonds	244,900	244,900
	<u>250,824</u>	<u>250,824</u>

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Group	2008	
	Within 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and other payables	9,564	9,564
Convertible bonds	237,000	237,000
	<u>246,564</u>	<u>246,564</u>
Company	2009	
	Within 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and other payables	2,303	2,303
Convertible bonds	244,900	244,900
	<u>247,203</u>	<u>247,203</u>
Company	2008	
	Within 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade and other payables	2,294	2,294
Convertible bonds	237,000	237,000
	<u>239,294</u>	<u>239,294</u>

b) Management of capital

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement. No changes were made in the objectives, policies or processes during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank borrowings less cash and cash equivalents. Capital includes convertible bonds and equity attributable to equity holders of the Company.

c) Estimation of fair values

The notional amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash at bank, trade and other payables) are assumed to approximate their fair values.

35. COMPARATIVE AMOUNTS

As further explained in note 30 to the financial statements, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated. In addition, as a result of the application of HKSA 1 (revised) as detailed in note 2, certain comparative amounts have been revised to conform to current year's presentation.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Code for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular (other than that relating to the Share Subscriber and persons acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular (other than those expressed by the Share Subscriber and persons acting in concert with it) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular (other than that relating to the Share Subscriber and persons acting in concert with it) misleading.

The director of the Share Subscriber (Mr. Allen Chan) and the directors of Sino-Forest (comprising two executive directors, namely, Mr. Allen Chan and Mr. Judson Martin, and five independent non-executive directors, namely, Mr. Edmund Mak, Mr. James Hyde, Mr. Simon Murray, Mr. Peter Wang and Mr. William Ardell) jointly and severally accept full responsibility for the accuracy of information contained in this circular relating to the Share Subscriber and persons acting in concert with it and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular by the Share Subscriber and persons acting in concert with it have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular relating to the Share Subscriber and persons acting in concert with it misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company are as follows:

<i>Authorised ordinary share capital:</i>		<i>HK\$</i>
<u>15,000,000,000</u>	Shares as at the Latest Practicable Date	<u>150,000,000</u>
<i>Issued and to be issued ordinary share capital as fully paid:</i>		
315,789,152	Shares as at the Latest Practicable Date	3,157,891.52
230,000,000	Subscription Shares to be issued pursuant to the Share Subscription Agreement	2,300,000
<u>545,789,152</u>	Total issued ordinary share capital upon Completion (assuming no Existing Convertible Bonds or Share Options will be converted or exercised on or before Completion)	<u>5,457,891.52</u>

All the issued Shares are fully paid and rank pari passu in all respects including the rights as to voting, dividends and return of capital.

Since 31 December 2009, being the date up to which the latest audited published financial statements of the Group were made, and up to the Latest Practicable Date, 1,250,000 Shares have been allotted and issued by the Company.

As at the Latest Practicable Date, the Company had the following Share Options:

Name or category of participant	Number of Share Options as at the Latest Practicable Date	Date of grant	Exercise price per share of the Company	Exercise period
Directors				
Wong Kin Chi	30,000	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012
	150,000	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014
Sung Yan Wai, Petrus	300,000	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012
	1,200,000	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012
	100,000	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012
	500,000	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014
Hui Tung Wah, Samuel	50,000	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012
	300,000	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012
	200,000	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012
	500,000	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014
Wong Che Keung, Richard	30,000	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012
	50,000	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012
	30,000	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012
	100,000	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014

Name or category of participant	Number of Share Options as at the Latest Practicable Date	Date of grant	Exercise price per share of the Company	Exercise period
Tong Yee Yung, Joseph	30,000	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012
	50,000	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012
	30,000	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012
	100,000	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014
Employees other than Directors (in aggregate)				
	20,000	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012
	9,350,000	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014
Other participants (in aggregate)				
	4,100,000	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012
	4,100,000	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012
	11,360,000	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014

Save for the aforesaid Share Options and the Existing Convertible Bonds set out in the section headed “Shareholding Structure of the Company” in the Letter from the Board in this circular, the Company did not have any other derivatives, options, warrants or conversion rights affecting the Shares and no capital of any member of the Group was under option, or agreed to conditionally or unconditionally to be put under option as at the Latest Practicable Date.

3. THREE-YEAR FINANCIAL INFORMATION

Financial information of the Group for each of the three years ended 31 December 2009, 2008 and 2007 are disclosed in the annual reports of the Company for the years ended 31 December 2009, 2008 and 2007 respectively, which are reproduced in Appendix I to this circular.

There has been no qualification contained in the auditors' report for the Group in respect of each of the three years ended 31 December 2009, 2008 and 2007, respectively.

Borrowings

As at the close of business on 31 May 2010, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK\$237,000,000, which represented the Existing Convertible Bonds due 8 November 2010 with outstanding principal amount of HK\$237,000,000.

Debt securities

Save for the Existing Convertible Bonds, as at the close of business on 31 May 2010, the Group did not have any debt securities issued outstanding, or authorized or otherwise created but unissued.

Mortgages, charges and security

As at the close of business on 31 May 2010, the Group had pledged 4,599,000,000 ordinary shares of no par value, representing 60% of the issued share capital of Greenheart and all indebtedness owing to the Group as securities in favour of the holders of the Existing Convertible Bonds.

Other commitments

As at the close of business on 31 May 2010, the Group had outstanding minimum commitments under non-cancellable operating leases in respect of land and buildings which fall due within one year of approximately HK\$1,530,000.

Save as disclosed above, and apart from intra-group liabilities, the Group did not, as at the close of business on 31 May 2010, have any outstanding mortgages, charges or debentures, loan capital issued or agreed to be issued, bank overdrafts and loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits or any hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there has not been any material change in the Group's indebtedness subsequent to 31 May 2010.

4. INTERESTS OF DIRECTORS

(a) Interests in securities

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which: (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in Shares and underlying Shares

(i) Interests in the Shares

Name of Director	Capacity	Number of Shares held	Approximate percentage of the total issued share capital of the Company %
Hui Tung Wah, Samuel	Beneficial owner	1,080,000	0.342
	Family interest (<i>Note 1</i>)	75,000	0.024
Wong Kin Chi	Beneficial owner	150,000	0.047

Note 1: These 75,000 Shares were jointly owned by Mr. Hui Tung Wah, Samuel and his spouse.

(ii) Interests in the Share Options granted pursuant to the Share Option Scheme

Name of Director	Date of grant	Exercise price per share of the Company	Exercise period	Number of share options as at the Latest Practicable Date	Approximate percentage of the total issued share capital of the Company %
Wong Kin Chi	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012	30,000	0.010
	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014	150,000	0.048
Sung Yan Wai, Petrus	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012	300,000	0.095
	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012	1,200,000	0.380
	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012	100,000	0.032
	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014	500,000	0.158
Hui Tung Wah, Samuel	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012	50,000	0.016
	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012	300,000	0.095
	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012	200,000	0.063
	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014	500,000	0.158
Wong Che Keung, Richard	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012	30,000	0.010
	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012	50,000	0.016
	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012	30,000	0.010
	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014	100,000	0.032

Name of Director	Date of grant	Exercise price per share of the Company	Exercise period	Number of share options as at the Latest Practicable Date	Approximate percentage of the total issued share capital of the Company %
Tong Yee Yung, Joseph	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012	30,000	0.010
	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012	50,000	0.016
	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012	30,000	0.010
	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014	100,000	0.032

(b) Other interests

As at the Latest Practicable Date,

- (i) none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2009, being the date up to which the latest audited published financial statements of the Group were made;
- (ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was significant in relation to the business of the Group; and
- (iii) none of the Directors or their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, the following persons (other than any Director or the chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long Positions in Shares and underlying Shares:

Name of Shareholder	Capacity	Number of Shares	Number of underlying Shares	Approximate percentage of issued share capital of the Company %
Sino-Forest	Beneficial owner and interest of controlled corporation (<i>Note 1</i>)	62,860,000	336,164,150	126.36
General Enterprise Management Services Limited	Interest of controlled corporation (<i>Note 2</i>)	7,000,000	97,077,922	32.96
Development Bank of Japan Inc.	Interest of controlled corporation (<i>Note 3</i>)	0	97,077,922	30.74
Asia Resources Fund Limited	Interest of controlled corporation (<i>Note 4</i>)	0	97,077,922	30.74

Notes:

- As at the Latest Practicable Date, Sino-Forest held (i) 55,000,000 Shares, representing approximately 17.42% of the issued share capital of the Company; and (ii) Existing Convertible Bonds in the principal amount of HK\$167,631,300 convertible into conversion shares at an initial conversion price of HK\$2.00 per conversion share (subject to adjustment).

In addition, since Sino-Capital is a wholly-owned subsidiary of Sino-Forest, Sino-Forest is also deemed to be interested in the Shares and the Existing Convertible Bonds in which Sino-Capital is interested by virtue of the SFO. As at the Latest Practicable Date, Sino-Capital (a) held (i) 7,860,000 Shares, representing approximately 2.49% of the issued share capital of the Company; and (ii) Existing Convertible Bonds in the principal amount of HK\$44,697,000 convertible into conversion shares at an initial conversion price of HK\$2.00 per conversion share (subject to adjustment); and (b) had entered into the Share Subscription Agreement for the acquisition of 230,000,000 Subscription Shares to be issued by the Company upon Completion.

2. As at the Latest Practicable Date, GEMS owned 23.26% of Asia Resources Fund Limited and was a person in accordance with whose directions Asia Resources Fund Limited was accustomed to act. GEMS is a wholly-owned subsidiary of General Enterprise Management Services Limited and therefore General Enterprise Management Services Limited is deemed to be interested in the Shares in which GEMS and Greater Sino Holdings Limited are interested by virtue of the SFO.
3. As at the Latest Practicable Date, Development of Bank of Japan Inc. owned 46.50% of Asia Resources Fund Limited. As such, it is deemed to be interested in the Shares in which Asia Resources Fund Limited is interested by virtue of SFO.
4. As at the Latest Practicable Date, Greater Sino Holdings Limited had entered into the CN Subscription Agreement for the acquisition of the New Convertible Notes in the principal amount of HK\$195 million convertible into Conversion Shares at an initial conversion price of HK\$2.002 per Conversion Share (subject to adjustment). Since Greater Sino Holdings Limited is a wholly-owned subsidiary of Asia Resources Fund Limited, Asia Resources Fund Limited is also deemed to be interested in the Shares in which Greater Sino Holdings Limited is interested by virtue of SFO.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to any Director or the chief executive of the Company, no persons (other than any Director or the chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

6. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last day on which trading took place in each calendar month during the period commencing six months preceding 22 June 2010, being the date of the Announcement, and ending on the Latest Practicable Date; (ii) the last trading day immediately preceding the date of the Announcement and (iii) the Latest Practicable Date:

Date	Closing price per Share HK\$
31 December 2009	1.81
29 January 2010	2.12
26 February 2010	2.23
31 March 2010	2.00
30 April 2010	2.00
31 May 2010	1.89
21 June 2010 (being the last trading date prior to Announcement)	1.79
30 June 2010	2.03
9 July 2010 (being the Latest Practicable Date)	2.19

The highest and lowest closing prices per Share recorded on the Stock Exchange during the period six months preceding 22 June 2010, being the date of the Announcement, and ending on the Latest Practicable Date were HK\$2.47 on 20 January 2010, and HK\$1.71 on 19 May 2010, respectively.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or a proposed service contract with any member of the Group which is not expiring or determinable by the relevant Group member within one year without payment of compensation, other than statutory compensation.

None of the Directors has a service contract with the Company or any of its subsidiaries or associated companies which:

- (a) (including continuous and fixed term contracts) was entered into or amended within six months before the date of the Announcement;
- (b) is a continuous contract with a notice period of 12 months or more; or
- (c) is a fixed term contract with more than 12 months to run irrespective of the notice period.

8. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

9. MATERIAL CHANGE

The Directors confirmed that there has been no material change in the financial or trading positions or outlook of the Group since 31 December 2009, being the date up to which the latest published audited financial statements of the Group were made, and up to the Latest Practicable Date.

10. LITIGATION

No member of the Group was engaged in any litigation or arbitration or claims of material importance, and no such litigation or arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any members of the Group, as at the Latest Practicable Date.

11. EXPERT AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this circular.

Name	Qualification
Taifook Capital Limited	A licensed corporation to conduct type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, the Independent Financial Adviser had given and had not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name or letter in the form and context in which they respectively appear.

As at the Latest Practicable Date, the Independent Financial Adviser had no shareholding in the Company or any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the Independent Financial Adviser had no direct or indirect interest in any assets which have been, since 31 December 2009 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

12. ARRANGEMENTS IN CONNECTION WITH THE SHARE SUBSCRIPTION

As at the Latest Practicable Date,

- (a) no agreement, arrangement or understanding had been entered by the Share Subscriber to transfer, charge or pledge the Subscription Shares to any person;
- (b) there was no agreement, arrangement or understanding (including any compensation arrangement) existing between the Share Subscriber or any person acting in concert with it (including Sino-Forest) and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Share Subscription and the Whitewash Waiver;
- (c) no benefit will be given to any Directors as compensation for loss of office or otherwise in connection with the Share Subscription and the Whitewash Waiver;
- (d) there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Share Subscription and the Whitewash Waiver or otherwise connected with the Share Subscription and the Whitewash Waiver;
- (e) save for the Share Subscription Agreement, no material contract had been entered into by the Share Subscriber and/or persons acting in concert with it (including Sino-Forest) in which any Director has a material personal interest;
- (f) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Share Subscriber or any person acting in concert with it (including Sino-Forest);
- (g) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Code;

- (h) no person had provided any irrevocable commitment to vote for or against the resolutions to be proposed at the SGM to approve the Share Subscription Agreement and the Whitewash Waiver; and
- (i) Mr. Hui Tung Wah Samuel and Mr. Wong Kin Chi, Directors, intended to vote for the resolutions in relation to the Share Subscription Agreement and the Whitewash Waiver at the SGM in respect of their own beneficial shareholdings.

13. SHAREHOLDING AND DEALINGS IN SHARES

As at the Latest Practicable Date:

- (a) save as disclosed under the section headed “Shareholding Structure of the Company” in the Letter from the Board in this circular, the Share Subscriber and persons acting in concert with it (including Sino-Forest) did not own or control any Shares, derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares;
- (b) the director of the Share Subscriber did not own or control any Shares, derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares;
- (c) save as disclosed under the section headed “Interests of Directors” in this appendix, none of the Directors was interested in any Shares, derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into Shares;
- (d) the Company did not own or control any shares, derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into shares in the Share Subscriber;
- (e) none of the Directors was interested in any shares, derivatives, options, warrants and conversion rights or other similar rights which are convertible or exchangeable into shares of the Share Subscriber;
- (f) no subsidiary of the Company or any pension fund of the Company or of any member of the Group owned or controlled any Shares, convertible securities, warrants, options and derivatives in respect of the Shares;
- (g) none of the professional adviser named under the section headed “Expert and Consent” in this appendix or any adviser to the Company as specified in class (2) of the definition of associate under the Code owned or controlled any Shares, convertible securities, warrants, options and derivatives in respect of the Shares; and
- (h) no fund manager who managed securities of the Company on a discretionary basis and is connected with the Company had any interest in Shares, convertible securities, warrants, options and derivatives in respect of the Shares.

During the period beginning six months prior to 22 June 2010, being date of the Announcement, and up to the Latest Practicable Date:

- (a) none of the Company and the Directors dealt for value in shares, convertible securities, warrants, options and derivatives of the Share Subscriber or the Company;
- (b) none of the Share Subscriber, the director of the Share Subscriber and parties acting in concert with the Share Subscriber (including Sino-Forest) dealt for value in the Shares, convertible securities, warrants, options and derivatives of the Company; and
- (c) none of (i) the Directors, (ii) the Company and (iii) the Share Subscriber and parties acting in concert with it (including Sino-Forest) borrowed or lent any of the Shares, convertible securities, warrants, options and derivatives of the Company.

14. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Group within the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date:

- (a) a supplemental deed dated 7 May 2009 entered into between, among others, the Company, Silver Mount Group Limited and certain vendors whereby the parties agreed to extend, at nil consideration, the expiry date from 7 May 2009 to 7 May 2010 of the Company's option to purchase shares in Greenheart;
- (b) a supplemental deed poll dated 7 May 2009 entered into between the Company, Silver Mount Group Limited and Loyal Treasure Management Limited whereby the parties agreed that the provision under the Existing Convertible Bonds regarding no adjustment to the conversion price of the Existing Convertible Bonds shall continue to apply notwithstanding the execution of the supplemental deed set out in item (a) above;
- (c) a supplemental deed poll dated 9 November 2009 entered into between the Company, Silver Mount Group Limited and Loyal Treasure Management Limited whereby the parties agreed to, among other things, extend the maturity date of the Existing Convertible Bonds from 9 November 2009 to 8 November 2010 at nil consideration;
- (d) the Share Subscription Agreement; and
- (e) the CN Subscription Agreement.

15. GENERAL

- (a) The registered address of the Share Subscriber is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and the correspondence address of the Share Subscriber is 3815-29, 38/F, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.
- (b) The principal person acting in concert with the Share Subscriber is Sino-Forest and its registered address is 90 Burnamthorpe Road West, Suite 1208, Mississauga, ONT L5B 3C3, Canada.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal office of the Company at Suites 1801-03, 18/F., Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong during normal business hours on any business day up to and including the date of the SGM:

- (a) the letter from the Board, the text of which is set out on pages 6 to 27 of this circular;
- (b) the letter from Taifook, the text of which is set out on pages 30 to 39 of this circular;
- (c) the consent letter from Taifook, referred to in the paragraph headed “Expert and Consent” in this appendix;
- (d) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 28 to 29 of this circular;
- (e) the copies of material contracts referred to in the paragraph headed “Material contracts” in this appendix;
- (f) the memorandum of association and bye-laws of the Company;
- (g) the memorandum and articles of association of the Share Subscriber;
- (h) the annual reports of the Company for the financial years ended 31 December 2008 and 31 December 2009; and
- (i) a sale and purchase agreement dated 9 May 2010 entered into by, among others, the Share Subscriber, Sino-Forest and certain vendors and guarantors whereby the Share Subscriber agreed to purchase shares in Greenheart.

The above documents will be available on the website of the SFC at www.sfc.hk and the Company’s website at www.omnicorplimited.com from the date of this circular up to and including the date of the SGM in accordance with Note 1 to Rule 8 of the Code and paragraph 43(2)(c) of Appendix 1 Part B of the Listing Rules.

NOTICE OF SGM



OMNICORP LIMITED

兩儀控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

NOTICE IS HEREBY GIVEN that a special general meeting (“SGM”) of Omnicorp Limited (the “Company”) will be held at Boardrooms 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong, on Thursday, 29 July 2010 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without amendments, the following ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the share subscription agreement dated 22 June 2010 (the “**Share Subscription Agreement**”) entered into between the Company and Sino-Capital Global Inc., (the “**Share Subscriber**” or “**Sino Capital**”) (a copy of which has been produced at the SGM marked “A” and signed by the chairman of the SGM for identification purposes), the terms and conditions thereof and transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) subject to and conditional upon, among others, the granting by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) of the listing of and permission to deal in the Subscription Shares (as defined below), the allotment and issue of 230,000,000 new shares with par value of HK\$0.01 each in the share capital of the Company (the “**Subscription Shares**”) be and is hereby approved, and the directors of the Company (the “**Directors**”) be and are hereby authorized to allot and issue the Subscription Shares pursuant to and in accordance with the terms and conditions of the Subscription Agreement; and
- (c) any one or more of the Directors be and is/are hereby authorized to sign, seal, execute, perfect, deliver all such documents and to do all such things and acts as he/they may in his/their discretion consider necessary, expedient or desirable to effect the transactions contemplated under the Share Subscription Agreement, the issue of the Subscription Shares and the amendment, variation or modification of the terms and conditions of the Subscription Agreement upon such terms and conditions as the board of Directors may think fit.”

* For identification purpose only

NOTICE OF SGM

2. **“THAT:**

- (a) the convertible notes subscription agreement dated 22 June 2010 (the **“CN Subscription Agreement”**) entered into between the Company and Greater Sino Holdings Limited (the **“CN Subscriber”**) (a copy of which has been produced at the SGM marked “B” and signed by the chairman of the SGM for identification purposes), the terms and conditions thereof and transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the creation and issue of the convertible notes in the aggregate principal amount of US\$25 million (equivalent to approximately HK\$195 million) (the **“Convertible Notes”**) pursuant to the terms of the CN Subscription Agreement be and are hereby generally and unconditionally approved in all respects;
- (c) the Directors be and are hereby generally and specifically authorized to issue the Convertible Notes on and subject to the terms of the CN Subscription Agreement;
- (d) subject to and conditional upon, among others, the granting by the Stock Exchange of the listing of and permission to deal in the Conversion Shares (as defined below), the allotment and issue of new shares, upon the conversion of the Convertible Notes (the **“Conversion Shares”**) in the share capital of the Company be and is hereby approved, and the Directors be and are hereby authorized to allot and issue the Conversion Shares pursuant to and in accordance with the terms and conditions of the Convertible Notes; and
- (e) any one or more of the Directors be and is/are hereby authorized to sign, seal, execute, perfect, deliver all such documents and to do all such things and acts as he/they may in his/their discretion consider necessary, expedient or desirable to effect the transactions contemplated under the CN Subscription Agreement, the issue of the Convertible Notes, the issue of the Conversion Shares and the amendment, variation or modification of the terms and conditions of the CN Subscription Agreement upon such terms and conditions as the board of Directors may think fit.”

NOTICE OF SGM

3. “**THAT** conditional upon the ordinary resolution no. 1 contained in this notice of SGM of which this resolution forms part being approved, the waiver (the “**Whitewash Waiver**”) granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of Sino-Capital and persons acting in concert with it (including Sino-Forest Corporation) to make a general offer for all the shares of the Company not already owned or agreed to be acquired by them as a result of the completion of the share subscription under the Share Subscription Agreement and the transactions contemplated therein be hereby approved and that the Directors be and are authorized to do all things and acts and sign all documents which they consider desirable or expedient to implement and/or given effect to any matters relating to or in connection with the Whitewash Waiver.”

By Order of the Board
Omnicorp Limited
Sung Yan Wai Petrus
Executive Director

Hong Kong, 13 July 2010

*Head office and principal place
of business in Hong Kong:*
Suites 1801-03, 18/F.
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

Registered Office:
Canon’s Court
22 Victoria Street
Hamilton HM12
Bermuda

Notes:

- (1) Any shareholder entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a shareholder of the Company. A shareholder who is a holder of two or more shares may appoint more than one proxy to attend and vote on the same occasion.
- (2) In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited of 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting at the special general meeting or any adjourned meeting thereof (as the case may be) should they so wish, and in such event, the form of proxy shall be deemed to be revoked.
- (4) Where there are joint registered holders of any share(s), any one of such joint holders may attend and vote at the meeting, either in person or by proxy, in respect of such share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting or any adjourned meeting thereof (as the case may be), the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.