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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Greenheart Group 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 transferee(s).

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Greenheart Group Limited.



GREENHEART GROUP LIMITED

綠森集團有限公司*

(formerly known as “Omnicorp Limited”,

“兩儀控股有限公司”)

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

**(1) MAJOR AND CONNECTED TRANSACTION INVOLVING ISSUE OF
CONSIDERATION SHARES;**

(2) CONTINUING CONNECTED TRANSACTIONS;

AND

(3) NOTICE OF SPECIAL GENERAL MEETING

**Independent financial adviser to the
Independent Board Committee and Independent Shareholders**



Haitong International Capital Limited

A letter from the Board is set out on pages 6 to 37 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on pages 38 to 39 of this circular.

A letter from Haitong International Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 40 to 69 of this circular.

A notice convening the SGM to be held at Oasis Room, 8/F, Renaissance Harbour View Hotel Hong Kong, No. 1 Harbour Road, Wanchai, Hong Kong at 10:00 a.m. on 28 March 2011 is set out on pages 177 to 178 of this circular. Whether or not you intend to attend and vote at the SGM in person, please 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 practicable but in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

* for identification purpose only.

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DEFINITIONS

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

“Acquisition”	acquisition of the Sale Shares pursuant to the terms of the Sale and Purchase Agreement
“Assignment”	assignment of the Shareholder’s Loan pursuant to the terms of the Sale and Purchase Agreement to the Company (or one of its subsidiaries as it may nominate)
“associate”	has the meaning ascribed thereto in the Listing Rules
“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
“CAD”	Canadian dollars, the lawful currency of Canada
“Closing Price”	means the closing price published in the Stock Exchange’s daily quotation sheet for one ordinary share of HK\$0.01 each in the capital of the Company
“Company”	Greenheart Group Limited 綠森集團有限公司*, formerly known as 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”	completion of the Acquisition and Assignment pursuant to the Sale and Purchase Agreement
“Completion Date”	the fifth (5th) Business Day after all the conditions have been fulfilled (or waived in accordance with of the Sale and Purchase Agreement) or such later date as Sino-Capital and the Company may agree in writing
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Consent”	any notices, reports or other filings required to be made with, or consents, registrations, approvals, permits or authorizations required to be obtained from, any Governmental Entity or other third party

DEFINITIONS

“Consideration”	the total consideration payable for the Acquisition and Assignment
“Consideration Shares”	up to 144,300,000 new Shares to be allotted and issued to Sino-Capital pursuant to the terms and conditions of the Sale and Purchase Agreement
“Director(s)”	director(s) of the Company
“Enlarged Group”	the Group as enlarged by the Acquisition
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth), unless otherwise stated
“Governmental Entity”	governmental or regulatory authority, agency, court, commission or other entity and “Governmental Entities” shall be construed accordingly
“Greenheart Suriname”	Greenheart Resources Holdings Limited, a company incorporated under the laws of the British Virgin Islands and currently an indirect non-wholly owned subsidiary of the Company
“Green Source”	Green Source Holdings Limited, a limited company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries from time to time
“Guarantor Term Loan Facility”	a loan facility in a total facility amount of US\$40 million which shall be extended by Sino-Forest (or by a subsidiary of Sino-Forest) to Target Co in accordance with the principal terms set out in the Sale and Purchase Agreement, if the Term Loan Facility has not been obtained by Target Co before the conditions (a) and (j) set out on pages 9 to 10 of this circular have been satisfied
“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 committee of the Board comprising Messrs. Wong Kin Chi, Wong Che Keung Richard and Tong Yee Yung Joseph, the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the Master Sale and Purchase Agreement (including the Proposed Annual Caps)

DEFINITIONS

“Independent Financial Adviser”	Haitong International Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO), being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the Master Sale and Purchase Agreement (including the Proposed Annual Caps)
“Independent Shareholders”	Shareholders, other than those who have interest in the Sale and Purchase Agreement or the Master Sale and Purchase Agreement
“Issue Price”	the average Closing Price on the last 10 consecutive Trading Days immediately prior to the Completion Date
“Latest Practicable Date”	8 March 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long-stop Date”	31 March 2011 or such later date as may be agreed between Sino-Capital and the Company in writing
“Master Sale and Purchase Agreement”	the master sale and purchase agreement entered into between Sino-Wood and Green Source on 7 January 2011 in relation to the sale and purchase of logs, standing timber, agri-forest, timber related and agri-related products
“MFVL”	MFV Limited (formerly known as GFP Mangakahia Forest Venture Limited), a company incorporated with limited liability in New Zealand and an indirect wholly-owned subsidiary of Target Co
“MFVL Group”	the group of companies comprising MFVL and its subsidiaries and the expression “member of the MFVL Group” or “MFVL Group Company(ies)” shall be construed accordingly
“NZ Holdco”	NZ Forestry Holding Company Limited, a company incorporated with limited liability in New Zealand and a direct wholly-owned subsidiary of Target Co
“NZ SPA”	the sale and purchase agreement dated 24 August 2010 among an independent third party, as seller, Target Co, Sino-Forest and another independent third party, as seller’s guarantor, relating to the sale and purchase of all of the issued share capital of MFVL

DEFINITIONS

“NZ\$”	New Zealand dollars, the lawful currency of New Zealand
“OIA”	the New Zealand Overseas Investment Act 2005
“Proposed Annual Cap(s)”	the proposed maximum annual aggregate value(s) for the continuing connected transactions of the Company in relation to the Master Sale and Purchase Agreement
“PRC” or “China”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Related Company”	has the meaning given to the term “related company” in the New Zealand Companies Act 1993 and includes any body corporate incorporated outside New Zealand that would be a related company if it were incorporated in New Zealand
“Sale and Purchase Agreement”	the sale and purchase agreement entered into between Sino-Capital, the Company and Sino-Forest on 7 January 2011 in relation to the Acquisition, the Assignment and the Share Issue
“Sale Shares”	2 shares of no par value in the share capital of Target Co, representing all of the issued shares in the capital of Target Co
“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 Notice of SGM in this circular
“Shareholder(s)”	the shareholder(s) of the Company
“Shareholder’s Loan”	the aggregate principal amount outstanding and interest accrued thereon from time to time under the shareholder’s loan owed by NZ Holdco to Sino-Forest pursuant to the existing shareholder’s loan agreement entered into between NZ Holdco and Sino-Forest dated 20 October 2010, as supplemented by the supplemental loan agreement between NZ Holdco and Sino-Forest dated 30 December 2010
“Shares”	the ordinary shares of HK\$0.01 each in the share capital of the Company
“Share Issue”	the allotment and issue of the Consideration Shares to Sino-Capital pursuant to the terms of the Sale and Purchase Agreement

DEFINITIONS

“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, a substantial shareholder of the Company holding approximately 58.45% of the shares of the Company as at the Latest Practicable Date
“Sino-Forest”	Sino-Forest Corporation, a company incorporated under the laws of Canada and the holding company of Sino-Capital
“Sino-Forest Group”	Sino-Forest and its subsidiaries from time to time
“Sino-Wood”	Sino-Wood Trading Limited, a company incorporated under the laws of the British Virgin Islands and an indirect wholly-owned subsidiary of Sino-Forest
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Target Co”	Mega Harvest International Limited, a company incorporated under the laws of the British Virgin Islands and an indirect wholly-owned subsidiary of Sino-Forest
“Target Group”	the group of companies comprising Target Co and its subsidiaries and the expression “member of the Target Group” or “Target Group Company(ies)” shall be construed accordingly
“Term Loan Facility”	a loan facility in a total facility amount of US\$40 million which is expected to be entered into among Target Co and various banks in accordance with the Sale and Purchase Agreement
“Trading Day”	a day on which the ordinary shares of HK\$0.01 each in the capital of the Company are traded on the Stock Exchange
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD



GREENHEART GROUP LIMITED

綠森集團有限公司*

(formerly known as “Omnicorp Limited”,
“兩儀控股有限公司”)
(Incorporated in Bermuda with limited liability)
(Stock Code: 94)

Executive Directors:

William Judson Martin (*Chief Executive Officer
and President*)
Hui Tung Wah Samuel

Registered Office:

Canon’s Court
22 Victoria Street
Hamilton HM12
Bermuda

Non-executive Directors:

Chan Tak Yuen Allen (*Chairman*)
Simon Murray

Principal Place of Business in Hong Kong:

16th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

Independent Non-executive Directors:

Wong Che Keung Richard
Tong Yee Yung Joseph
Wong Kin Chi

11 March 2011

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR AND CONNECTED TRANSACTION INVOLVING ISSUE OF
CONSIDERATION SHARES;**

(2) CONTINUING CONNECTED TRANSACTIONS;

AND

(3) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 7 January 2011 in relation to (1) the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder and (2) the entering into of the Master Sale and Purchase Agreement and the continuing connected transactions contemplated thereunder.

* for identification purpose only.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) details of the Master Sale and Purchase Agreement and the continuing connected transactions contemplated thereunder; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders; (iv) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (v) financial information of the Group; (vi) financial information of the Target Group; (vii) financial information of the MFVL Group; (viii) unaudited pro forma statement of assets and liabilities of the Enlarged Group; (ix) the plantation forest assets and property valuation report of the Target Group; and (x) a notice convening the SGM for approving the Sale and Purchase Agreement, the Master Sale and Purchase Agreement and the respective transactions contemplated under each of the agreements.

MAJOR AND CONNECTED TRANSACTION

Sale and Purchase Agreement

(a) Background

Reference is made to the announcement of the Company dated 3 November 2010 in relation to the intention of the Company to enter into an agreement with Sino-Capital and Sino-Forest, pursuant to which, upon satisfaction of certain conditions, all shares of Target Co would be transferred by Sino-Capital to the Company or its designated subsidiary.

On 7 January 2011, the Company entered into the Sale and Purchase Agreement with Sino-Capital and Sino-Forest, pursuant to which Sino-Capital has conditionally agreed to sell and assign, and the Company has conditionally agreed to purchase, the Sale Shares, being the entire issued share capital of Target Co, together with the Shareholder's Loan, at the Consideration.

(b) Principal Terms of the Sale and Purchase Agreement

Date:

7 January 2011

Parties:

- a) Sino-Capital, as the vendor;
- b) the Company, as the purchaser; and
- c) Sino-Forest, as the guarantor.

Sino-Forest has agreed to guarantee the performance of the obligations of Sino-Capital under the Sale and Purchase Agreement.

LETTER FROM THE BOARD

Assets to be Acquired and Assigned:

The Sale Shares and the Shareholder's Loan.

As at the date of the Sale and Purchase Agreement, NZ Holdco was indebted to Sino-Forest in the sum of US\$50,711,534.38 under the Shareholder's Loan. It is anticipated that, before Completion, Target Co will enter into the Term Loan Facility or the Guarantor Term Loan Facility (as the case may be) and use the net proceeds from the drawdown thereof to repay the Shareholder's Loan in part. Any remaining outstanding amount of the Shareholder's Loan after partial repayment will be transferred from and assigned by Sino-Forest to Sino-Capital and will remain owing from NZ Holdco to Sino-Capital immediately before Completion.

Subject to the terms and conditions of the Sale and Purchase Agreement, Sino-Capital has conditionally agreed to sell and assign to the Company (or one of its subsidiaries as it may nominate) and the Company has conditionally agreed to purchase and accept (or procure its nominated subsidiary to accept) all of Sino-Capital's rights, title, interest and benefits in and to the Shareholder's Loan.

Consideration:

The maximum amount of the Consideration is approximately US\$37 million (equivalent to HK\$288,600,000), the breakdown of which is as follows:

- a) US\$70,711,534.38;
- b) **plus** all interest that accrues on the Shareholder's Loan from the date following the date of the Sale and Purchase Agreement up to and including the date on which NZ Holdco repays in part the Shareholder's Loan;
- c) **less** the total amount of the Shareholder's Loan (both principal and interest), if any, repaid by NZ Holdco using the net proceeds from the drawdown of the Term Loan Facility or the Guarantor Term Loan Facility (as the case may be);
- d) **plus** the interest that accrues on the Shareholder's Loan from the date following the date of partial repayment of the Shareholder's Loan in (c) above up to and including the Completion Date;
- e) **plus** the aggregate additional amount (if any) advanced by Sino-Forest and/or Sino-Capital under the Shareholder's Loan on or before the Completion Date; and
- f) **plus** an amount equal to all costs and expenses (the "Costs") reasonably incurred by Sino-Capital and Sino-Forest up to the Completion Date in connection with the acquisition by NZ Holdco of MFVL, the procurement and entry into of the Term Loan Facility and any corporate guarantee given by Sino-Forest in connection therewith and the entry into of the Guarantor Term Loan Facility (in the case of each of the Term Loan Facility and the Guarantor Term Loan Facility, whether or not such facility is obtained). The parties agree that the total amount of such Costs payable by the Company on Completion shall not exceed HK\$4,250,000.

LETTER FROM THE BOARD

The Consideration shall be satisfied in the following manner on Completion:

- a) up to 144,300,000 Consideration Shares will be allotted by the Company at a price equal to the Issue Price per Consideration Share, each credited as fully paid and ranking pari passu with the existing ordinary shares of the Company save that they will not rank for any dividend or other distribution declared by reference to a record date prior to their date of issue; and
- b) the balance of the Consideration after deduction of the aggregate Issue Price for all the Consideration Shares will be satisfied in cash.

The number of Consideration Shares shall be calculated by dividing the Consideration by the Issue Price, which such Issue Price will only be determined on the Completion Date as the Issue Price refers to the average Closing Price on the last 10 consecutive Trading Days immediately prior to the Completion Date. However, the maximum number of Consideration Shares to be issued will not be more than 144,300,000.

For discussion purpose only, if the Issue Price is HK\$0, the maximum amount of cash payable in relation to the Consideration is US\$37 million. The Consideration payable in cash will be from the Company's internal source of fund.

Assuming the Completion Date is the Latest Practicable Date, the Issue Price will be HK\$2.837 and based on the maximum Consideration of US\$37 million, 101,727,177 Consideration Shares will be issued to Sino-Capital. As the Consideration will be settled in full by allotting the Consideration Shares, no cash will be required to be paid to Sino-Capital.

Conditions Precedent:

The agreement to sell and purchase the Sale Shares and assign the Shareholder's Loan is conditional upon:

- a) the Sale and Purchase Agreement and the transactions contemplated therein, in particular, the Acquisition, Assignment and Share Issue, having been approved by the Shareholders in a general meeting, other than those who are required to abstain from voting by law, the Listing Rules, the Stock Exchange and/or the bye-laws of the Company;
- b) the listing of and permission to deal in the Consideration Shares having been granted by the Stock Exchange (either unconditionally or subject to customary conditions) and not being revoked prior to the Completion Date;
- c) certain warranties as set out in the Sale and Purchase Agreement remaining true and accurate and not misleading in any material respect at Completion as if repeated at Completion and at all times between the date of the Sale and Purchase Agreement and the Completion Date;
- d) Sino-Capital having complied fully with its pre-completion obligations specified in the section headed "Pre-Completion obligations" below and otherwise having performed in all material respects all of the covenants and agreements required to be performed by it under the Sale and Purchase Agreement;

LETTER FROM THE BOARD

- e) all necessary Consents in relation to the transactions contemplated under the Sale and Purchase Agreement having been granted by third parties (including Governmental Entities);
- f) no statute, regulation or decision which would prohibit, restrict or materially delay the Acquisition or the Assignment or the operation of any member of the Target Group after Completion having been proposed, enacted or taken by any Governmental Entity;
- g) no order, decree, judgment or injunction of any court or tribunal of competent jurisdiction having been issued and being in effect (whether temporary, preliminary or permanent) which prohibits the performance of the transactions contemplated in the Sale and Purchase Agreement or imposes in connection with the Sale and Purchase Agreement any material restriction on the Company or Sino-Capital or with respect to the business operations of any Target Group Company either prior to or subsequent to the Completion Date;
- h) no action, suit, claim or proceeding by any Governmental Entity being pending or threatened which seeks to prohibit or restrict the performance of the transactions under the Sale and Purchase Agreement or questions the validity or legality of the transactions contemplated by the Sale and Purchase Agreement or seeks to impose in connection with the Sale and Purchase Agreement any material restriction on the Company or Sino-Capital or with respect to the business operations of any Target Group Company either prior to or subsequent to the Completion Date;
- i) no event or circumstance having occurred or arisen which has a material adverse affect on the Target Group Companies (taken as a whole), or any of their properties and assets (for the avoidance of doubt and without limitation, any destruction of or damage to any of the properties or assets of a value which exceeds by greater than US\$13,600,000 the amount of any insurance proceeds received by a Target Group Company in respect of that destruction or damage shall constitute such an event); and
- j) the Company having obtained all Consents required under the OIA in relation to the transactions contemplated by the Sale and Purchase Agreement pursuant to the OIA in a form and on conditions reasonably acceptable to the Company and Sino-Capital.

The Company may waive all or any of conditions (c), (d) and (i) at any time by notice in writing to Sino-Capital.

The Company and Sino-Capital may waive all or any of conditions (e), (f), (g) and (h) at any time by notice in writing to each other.

As at the Latest Practicable Date, condition (j) has been fulfilled.

Long-stop Date:

On or before the Long-stop Date:

- a) Sino-Capital shall use its best endeavours to procure the fulfilment of conditions (c) and (d);
- b) the Company shall use its best endeavours to procure the fulfilment of conditions (a) and (b); and
- c) Sino-Capital and the Company shall use their respective best endeavours to procure the fulfilment of condition (e).

LETTER FROM THE BOARD

In the event that any of the conditions shall not have been fulfilled or waived prior to the Long-stop Date, the Sale and Purchase Agreement shall be terminated and shall cease to be of any effect save in respect of claims arising out of any antecedent breach of the Sale and Purchase Agreement.

Pre-completion obligations:

Sino-Capital covenants and agrees that, from the date of the Sale and Purchase Agreement up to the Completion Date (the “Interim Period”), unless the Company shall otherwise agree in writing or except as otherwise contemplated by the Sale and Purchase Agreement:

- (a) Sino-Capital will procure that no Target Group Company enters into any new contract or agreement which individually exceeds NZ\$50,000 in value and that on Completion the Target Group Companies will have no interest-bearing or other financial debt (other than the Shareholder’s Loan and the Term Loan Facility or the Guarantor Term Loan Facility (as the case may be)) and will not have account payables or other creditors which in aggregate are in excess of NZ\$250,000, without obtaining the Company’s prior written consent, such consent not to be unreasonably withheld;
- (b) Sino-Capital will procure that no Target Group Company commits any breach of any applicable law, regulation, regional or district plan or any Consents, permits, licenses, certificates of authority, approvals, resource consents, orders and other authorizations of Governmental Entities that are required in order to permit each to carry on its business as it is presently conducted or proposed to be conducted (including, for clarity, harvesting and replanting activities) if such breach would adversely affect the Target Group Companies (taken as a whole) or their business to a material extent;
- (c) Sino-Capital will procure that, except to the extent contemplated by the Sale and Purchase Agreement, no Target Group Company alters its share capital from that described in the Sale and Purchase Agreement nor alters any rights or restrictions attaching to any such shares, nor enters into any contract or arrangement with Sino-Capital or any Related Company of Sino-Capital, or makes any payment or other distribution thereto;
- (d) Sino-Capital will use its reasonable endeavors to ensure that each Target Group Company maintains the properties and trees as referred to in the Sale and Purchase Agreement in a manner consistent with past practice;
- (e) no Target Group Company shall (i) amend its constitutive documents; or (ii) declare, set aside or pay any dividend, capital return, profit or equity distribution payable in cash, stock or property with respect to any of its capital stock; and
- (f) Sino-Capital shall procure that neither it nor any Target Group Company shall, without the prior written consent of the Company, (i) transfer, lease, license, guarantee, sell, mortgage, pledge, grant a Lien (as defined in the Sale and Purchase Agreement) in respect of or otherwise dispose of any property or assets of any Target Group Company or encumber any property or assets of any Target Group Company other than in the ordinary and usual course of business of any Target Group Company consistent with past practice; or (ii) create, incur or assume any indebtedness of any Target Group Company to a third party other than in the

LETTER FROM THE BOARD

ordinary and usual course of business of any Target Group Company consistent with past practice or as described in the Disclosure Schedule (as referred to in the Sale and Purchase Agreement); or (iii) do, allow or procure any act or omission (x) that would cause any Warranty (as defined in the Sale and Purchase Agreement) that is qualified as to materiality no longer to be true and correct, or (y) that would cause any representation or Warranty that is not qualified as to materiality no longer to be true and correct in all material respects.

Completion:

Completion will take place on the fifth (5th) Business Day after all the conditions set forth under the paragraph headed “Conditions Precedent” above have been fulfilled (or waived) or such later date as Sino-Capital and the Company may agree in writing.

The Acquisition, Assignment and Share Issue will take place simultaneously on the Completion Date.

Term Loan Facility and Guarantor Term Loan Facility

If Target Co obtains the Term Loan Facility, Sino-Forest has agreed to provide a corporate guarantee as required under the Term Loan Facility throughout the life of the facility. As such financial assistance provided by Sino-Forest for the benefit of Target Co is on normal commercial terms where no security over the assets of the Group is granted, such financial assistance is exempt from the reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

In the event that, upon satisfaction of the conditions set out in (a) and (j) above, Target Co has not yet obtained the Term Loan Facility, Sino-Forest and Target Co will enter into a definitive agreement for the Guarantor Term Loan Facility on terms and conditions satisfactory to the Company, Target Co and Sino-Forest, not later than the third (3rd) Business Day after the satisfaction of the conditions set out in (a) and (j) above. Upon obtaining the Term Loan Facility or the Guarantor Term Loan Facility (as the case may be), Target Co shall forthwith draw down the entire amount available under the facility (after deduction of the banks’ costs and expenses) and provide the proceeds to NZ Holdco for partially repaying the Shareholder’s Loan.

It is agreed by the parties to the Sale and Purchase Agreement that the definitive agreement for the Guarantor Term Loan Facility shall be on normal commercial terms and no security over the assets of the Group shall be granted. As such, the financial assistance provided by Sino-Forest to Target Co, upon Completion, will be exempt from the reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

The Company further agreed that, if the Term Loan Facility has not been obtained by Target Co before satisfaction of the conditions set out in (a) and (j) above, it will (a) consult Sino-Forest on the corporate guarantee to be given by Sino-Forest in connection with the Term Loan Facility, with a view to procuring that the Term Loan Facility is entered into as soon as practicable after Completion; and (b) procure that the entire amount available under the Term Loan Facility (after deduction of the banks’ costs and expenses) is drawn down and used forthwith to repay the amount advanced under the Guarantor Term Loan Facility.

LETTER FROM THE BOARD

If, upon Completion, the financial assistance provided by Sino-Forest pursuant to the Term Loan Facility or the Guarantor Term Loan Facility (as the case may be) is not exempt from the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules, the Company will publish further announcements as and when appropriate pursuant to the Listing Rules.

Basis for Determining the Consideration

The Consideration was determined after arm's length negotiations between the Company and Sino-Capital with reference to the amount of consideration paid under the NZ SPA plus all costs and expenses reasonably incurred by Sino-Forest and/or its subsidiaries in connection with its acquisition of MFVL as well as the additional working capital funded by the Sino-Forest Group in connection with the daily operation of MFVL and its subsidiaries up to the date of the Sale and Purchase Agreement.

The original purchase cost of MFVL by the Sino-Forest Group under the NZ SPA was US\$67,792,223.

Share Issue

Conditional upon the fulfilment of all the conditions set forth under the paragraph headed "Conditions Precedent" in the section above headed "Principal Terms of the Sale and Purchase Agreement", for part payment of the Consideration pursuant to the Sale and Purchase Agreement, the Company will issue and allot up to 144,300,000 Consideration Shares, representing approximately 21.14% of the existing issued share capital of the Company of 682,649,152 Shares as at the Latest Practicable Date, to Sino-Capital.

The number of Consideration Shares shall be calculated by dividing the Consideration by the Issue Price, provided that in no event shall the number of Consideration Shares be more than 144,300,000.

The Consideration Shares will be allotted and issued at the Issue Price per Consideration Share, each credited as fully paid and ranking pari passu with the existing Shares save that they will not rank for any dividend or other distribution declared by reference to a record date prior to their date of issue.

The Issue Price was arrived at after arm's length negotiations between the Company and Sino-Capital.

Using the Share Issue to partly satisfy the Consideration will help reduce the cash outlay for the Acquisition. The Directors (including the independent non-executive Directors) consider that the Issue Price is fair and reasonable as far as the Company is concerned and the Share Issue is in the interests of the Company and its Shareholders as a whole.

The Directors propose to seek approval from the Shareholders at the SGM to issue the Consideration Shares.

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The issue of the Consideration Shares will not result in a change of control of the Company.

LETTER FROM THE BOARD

Effects of the Share Issue on Shareholding Structure

The existing and enlarged shareholding structure of the Company immediately before and after the completion of the Share Issue is set out below (assuming the maximum number of Consideration Shares are issued and no further Shares are issued before the Share Issue):

	As at the Latest Practicable Date and before Completion		Immediately after completion of the Share Issue	
	<i>No. of Shares</i>	<i>Approx. Percentage</i>	<i>No. of Shares</i>	<i>Approx. Percentage</i>
Sino-Capital together with persons acting in concert with it	399,024,150	58.45%	543,324,150	65.70%
General Enterprise Management Services Limited	7,000,000	1.03%	7,000,000	0.85%
Directors and their associates	20,398,560	2.99%	20,398,560	2.47%
Other Public Shareholders	256,226,442	37.53%	256,226,442	30.98%
Total	<u>682,649,152</u>	<u>100%</u>	<u>826,949,152</u>	<u>100%</u>

Reasons for and Benefits of entering into the Sale and Purchase Agreement

The Group is currently engaged in log harvesting, lumber processing, marketing and sales of logs and lumber products. As set out in the Group's 2009 annual report and 2010 interim report, the Group has been actively exploring investment opportunities to improve its operating results and maximize the Shareholders' value.

According to the draft 12th five-year plan (2011-2015) which was approved at the 5th plenary meeting of the PRC central government in October 2010, the PRC central government intends to make China less dependent on exports and more reliant on domestic consumer spending and plans to improve livelihoods in rural villages through urbanization and construction of affordable housing etc. At the beginning of 2010, the Ministry of Housing and Urban Development of China, announced doubling their target to build 15.4 million housing units by 2012 and 200 more new rural cities by 2025. It is anticipated that China's GDP will continue to robust growth of 8% to 11% in 2010 to 2011 with a significant ramp up in demand for housing and construction materials. Therefore, the Directors remain very optimistic about China's domestic growth and demand for wood fibre.

If the Acquisition is completed, the Group will expand its forest asset portfolio from existing quality tropical hardwood to fast growing softwood and extend its foothold from Suriname to New Zealand which will strengthen its strategy in supplying wood from outside China for China. In addition, as over 47% of the total recoverable volume of timber as at 31 December 2009 is currently merchantable, it is expected that the Mangakahia Forest can generate immediate strong operating cashflow.

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Taking into account the above, the Directors consider that the Acquisition will be instrumental for the Group to further tap the increasing market demand of wood fibre through broadening its forest asset base and will bring additional earnings and long term value to the Group. The Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and the Acquisition is in the interests of the Company and its Shareholders as a whole.

Listing Rules Implications

Sino-Capital is the controlling shareholder of the Company holding approximately 58.45% of the issued share capital of the Company as at the Latest Practicable Date, and is therefore a connected person of the Company under the Listing Rules.

Sino-Forest is the holding company of Sino-Capital and is therefore a connected person of the Company under the Listing Rules.

As one or more of the applicable percentage ratios to the Acquisition under the Listing Rules are more than 25% but less than 100%, the transactions contemplated under the Sale and Purchase Agreement constitute connected transactions and major transactions of the Company under the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

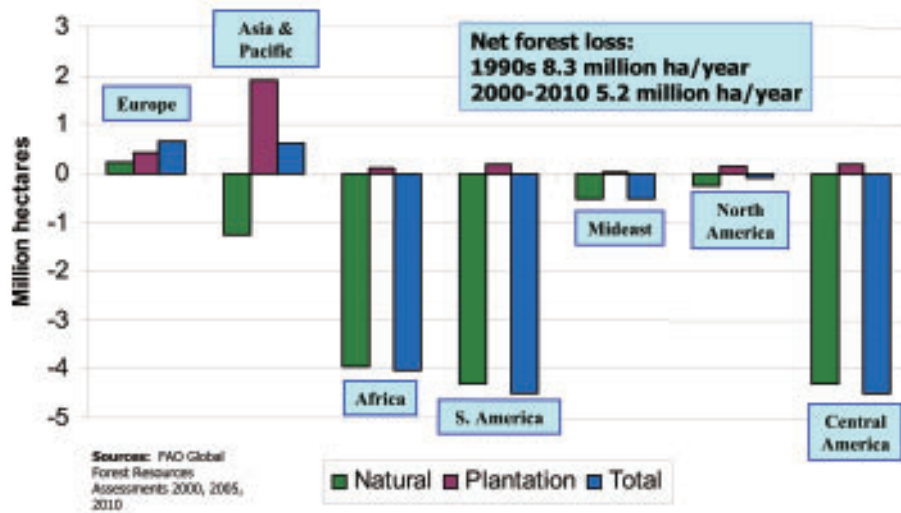
INDUSTRY OVERVIEW

Global Forestry Industry Overview

According to the Global Forest Resources Assessment 2010, the world's total forest area was just over 4 billion hectares, corresponding to 31% of the total land area or an average of 0.6 ha per capital. The five most forest-rich countries (the Russian Federation, Brazil, Canada, the United States of America and China) accounted for more than half of the total forest areas. While the rate of deforestation and loss of forest from natural causes was still alarmingly high, it was slowing down. At the global level, it decreased from an estimated 16 million ha per year in 1990s to around 13 million ha per year in the last decade. At the same time, afforestation and natural expansion of forests in some countries and area deduced the net loss of forest area significantly at the global level. The net change in forest area in the period 2000–2010 was estimated at -5.2 million ha per year, down from -8.3 million ha per year in the period of 1990–2000. However, most of the loss of the forest continued to take place in countries and areas in the tropical regions, while most of the gain took place in the temperate and boreal zones, and in some emerging economies. In general, it is expected that the global wood fibre supply, in particular those from natural forest, will continue to decrease.

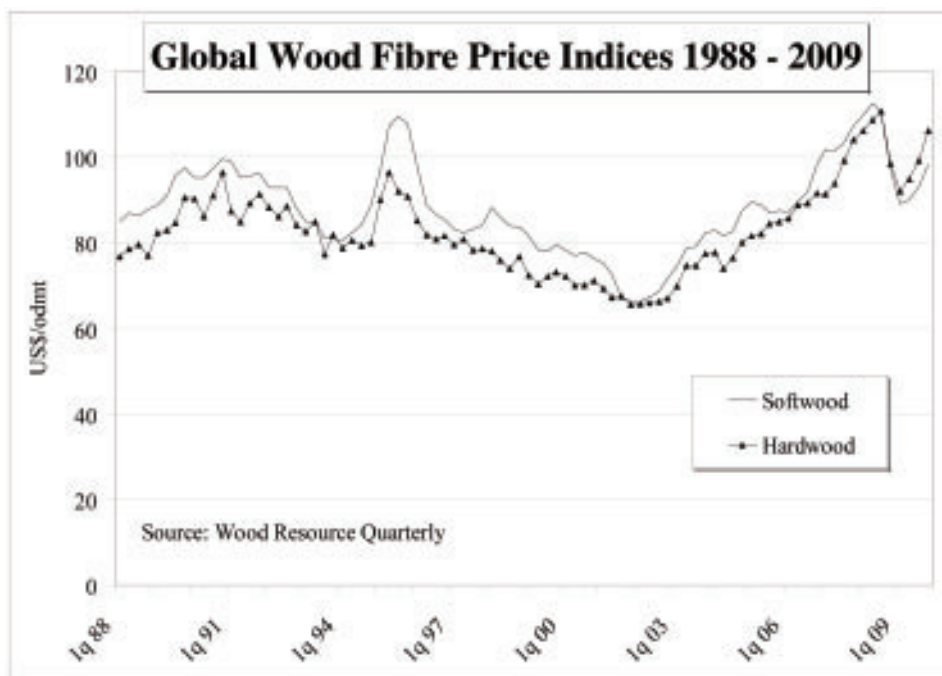
LETTER FROM THE BOARD

Global Forest and Deforestation



The main external forces affecting the demand of forest industry are trends in economics, society and the environment. The two most fundamental forces are economic growth and population demographics.

Following depressed global market conditions and widespread production curtailments in the wood processing sector, production of industrial roundwood (logs) declined from 1,674 million m³ in 2007 to 1,554 million m³ in 2009. Given the global economic conditions were more stable, the global sawlog prices have trended upward in almost all regions of the world for the past year. The Global Sawlog Price Index (GSPI) reached \$80.88/m³ in the 3rd quarter of 2010, which was the highest level since the beginning of the financial crisis in late 2008. During 2009, the GSPI increased by almost 16%.



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As noted in State of the World's Forests 2009, global population and the size of the global economy are expected to increase in the next few decades at similar rates to those seen in the past. Global gross domestic product (GDP) increased in real terms by 2.5% per annum from about US\$38 trillion in 1990 to US\$63 trillion in 2010 (at 2010 prices and exchange rates). It is projected to grow by 3.2% per annum to US\$117 trillion in 2030, with relatively higher growth rates projected for less developed regions.

Increasing population and improving standards of living in both developing and developed countries are expected to drive the growth of demand for wood. China and India are expected to register the strongest construction growth in the Asia region over the next few years due to their rapid urbanisation and industrialisation, with both civil engineering and residential and non-residential building expected to register strong growth. It is expected the both China and India will be the key drivers in global log and lumber export prices and this will cause log and lumber prices to rise during the next five years.

China Wood Product Market Overview

Fibre Supply and Demand

China has vast forest resources from a global prospective, possessing the fifth largest forest area and the sixth largest forest stock in the world. However, China continues to rely on imported wood to satisfy its domestic fibre demand because of the following combination of factors:

- Substantially increased domestic wood consumption
- Restricted harvest from natural forests
- Fast-growing high-yielding forests representing only a small portion of its sizeable forest resources.

According to the sixth (1999-2003) national resources inventory survey, China has 175 million ha of forests, accounting for 18% of the country's total land area of 960 million ha. The forested area has expanded by 30% over the last decade, driven by enhanced plantation forest development activities.

The Chinese government has been investing heavily in new plantation projects with the aim of increasing domestic roundwood production. The provided set of initiatives should nonetheless result in significant growth in China's domestic roundwood supply within the next decade.

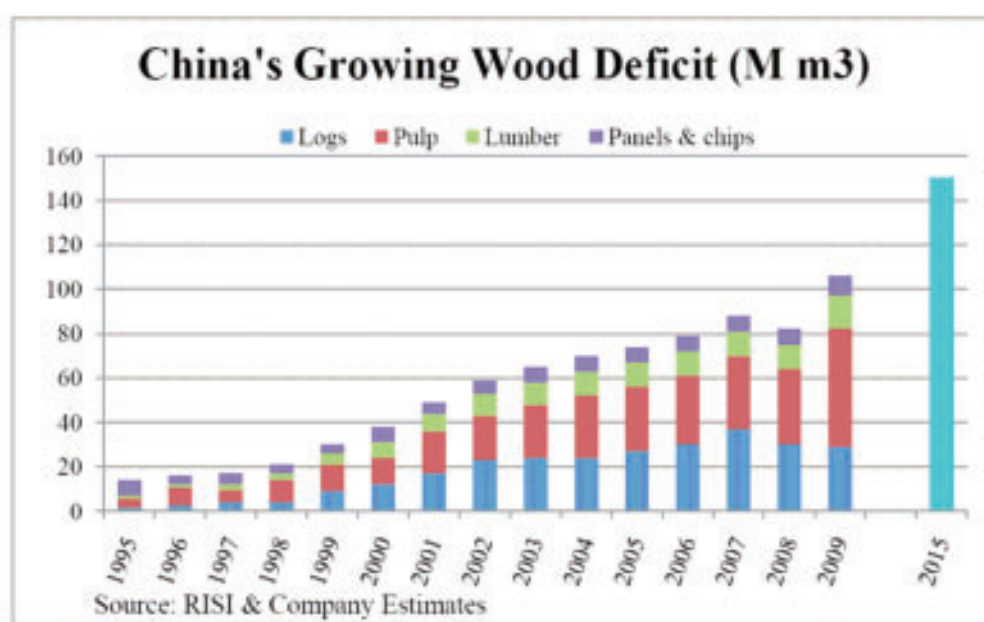
Current annual forest harvest trends and future forestry plans indicate that China's forest plantation will raise China's annual timber harvest significantly over the next 10 years. With an average increase in the annual harvest since 2002 of 11% – due mainly to increases in the yearly plantation harvest – it is expected that China's total timber harvest by 2020 could reach 125 million m³, of which two-thirds or more is expected to come from forest plantations.

China's domestic fibre demand, including non-industrial application such as rural housing, mining, agriculture and fuelwood is estimated to be 350-400 million m³ per annum today. Industrial uses represent approximately one-third of the total.

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As presented in the table below, it is estimated that China's industrial wood consumption as of 2005 was in the order of 140-150 million m³, on a round-wood equivalent (RWE) basis, having grown substantially over the last five years at an average rate of 10% per annum. The lumber and reconstituted panel industries have been the major contributors to the considerable growth.

The demand is forecast to continuing growing over the next five years. Despite the Chinese central government and local governments' efforts to increase domestic supply in China, Chinese sources (China's National Development and Reform Commission) predicted in 2005 that the fibre-supply gap will reach approximately 100 million m³ by 2010 on a RWE basis and 150 million m³ by 2015 – an indication that imports will continue to rise in the short-to-medium term period.



Price Trends

The overall outlook for softwood (including Radiata pine) prices is influenced by the projected supply and demand trends, including the tight supplies of Russian logs. Higher prices are expected, especially starting in 2012 when global markets are expected to be more robust.

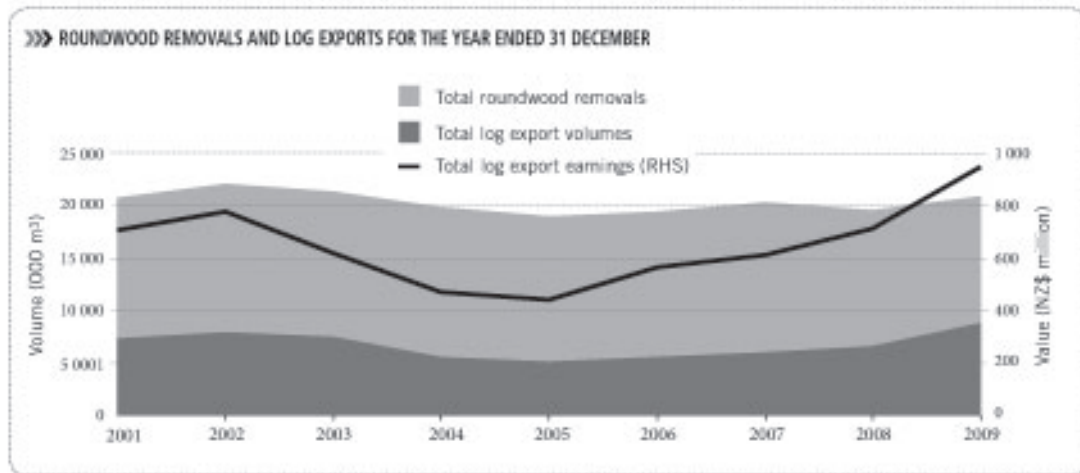
New Zealand Forestry Industry Overview

Forestry is a major industry in New Zealand, contributing an annual gross income of around NZ\$5 billion, 3% of New Zealand's GDP and directly employing around 20,000 people. According to the information provided by the Ministry of Agriculture and Forestry of New Zealand (the "MAF"), there are at present 1.8 million ha of plantation assets, which cover 7% of New Zealand's land area; 93% are privately owned. Plantation assets are dominated by radiata pine (89% by area), with Douglas-fir accounting for 6% by area.

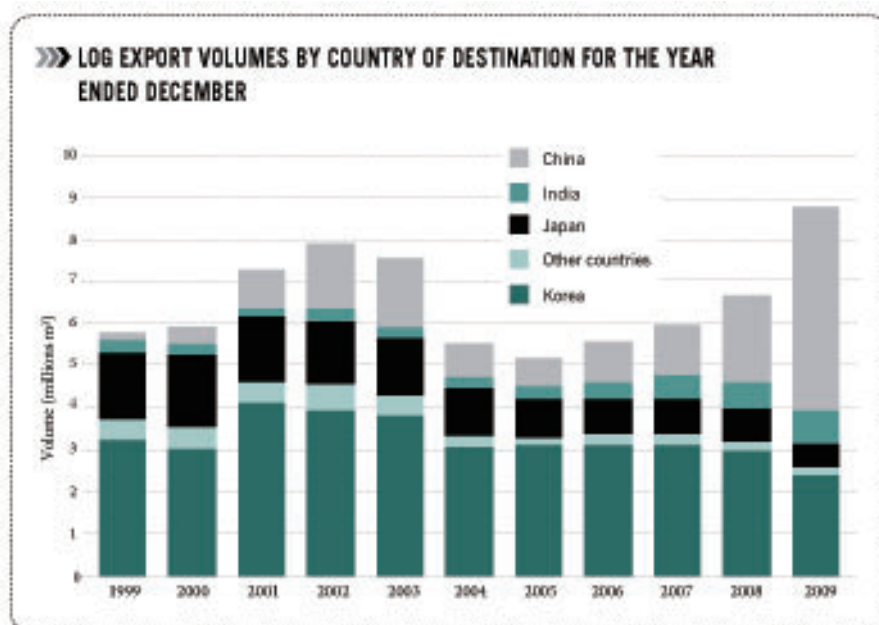
LETTER FROM THE BOARD

Most of New Zealand's wood products are destined for overseas markets and accounted for approximately 1.1% of the world's total supply of industrial wood and 1.3% of the world's trade in forest products. However, New Zealand supplies almost 9% of the Asia Pacific forest products trade volume, representing approximately 20% by value.

The total harvested volume for the year ended 31 December 2009 increased 6.8% to an estimated 21.0 million m³ where compared to the year ended 31 December 2008. This is the largest December year harvest since 2003.



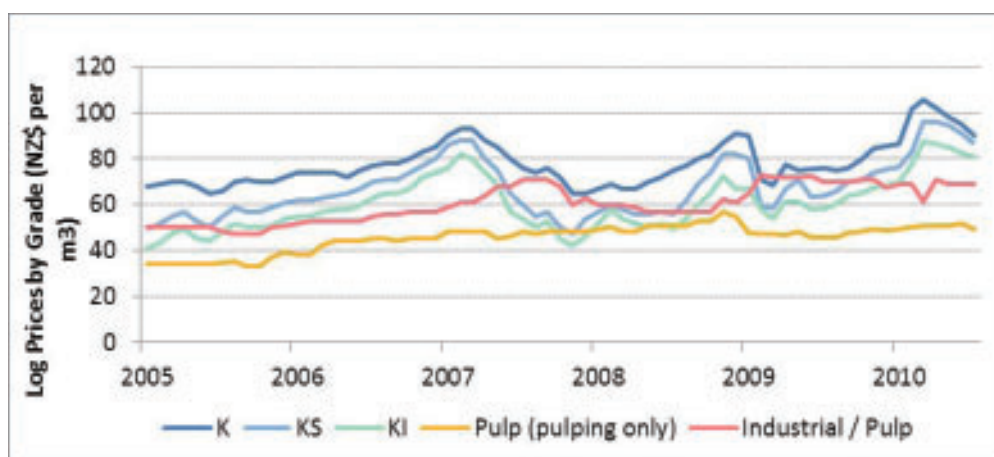
Compared to the year ended 31 December 2008, the total log export volume for the year ended 31 December 2009 increased 31.5% (2.1 million m³). The increase to China alone was over 2.7 million m³ and made up 54.9% of the total volume exported. However, this was partially offset by the reduced exports to Korea and Japan. India is another major trading partner to increase log export volumes, up 225,000 m³ to 818,000 m³.



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China continued to show very strong demand for New Zealand softwood logs as the impact of Russia's uncertain supply and log export tax increase, at 25% for 2010, which has exacerbated its wood shortage. New Zealand has continued to consolidate its market position in China.

Prices for New Zealand Radiata Pine have benefited from the strong demand from China and the Russian log export tax schedule commencing in 2007 (current softwood sawlog tax is 25% or a minimum of EURO15/m³). In fact, the radiata pine logs, mainly from New Zealand, have suddenly increased their softwood market share in China from 5% in 2006 to 24% in 2009. According to the information provided by MAF, the export price of New Zealand Radiata Pine increased generally in the past 5 years.



NEW ZEALAND LEGAL AND REGULATORY OVERVIEW

Until the 1980s, the New Zealand government was directly involved in forestry production through ownership of over half the country's plantation forests, two large sawmills, administration of forestry encouragement loans, and regulation of log exports. In 1987, the New Zealand government decided to sell its planted forests to private companies and its current policy is to ensure that New Zealand forestry is internationally competitive and not dependant on subsidies.

The principal government department concerned with regulating forestry in New Zealand is the MAF. MAF administers most forestry legislation and frequently publishes guidelines on best practice in the industry.

While there is no comprehensive code applicable to silviculture in New Zealand, the forestry industry is affected by a number of statutes, some specific to the industry and some more general in application:

Specific Statutes

- The *Forests Act 1949* (the "Act") is the most important legislation applicable to forestry. The Act itself principally regulates the felling, milling and export of indigenous timber. The Act also contains provisions on the registration of forestry supply contracts which, although passed, have yet to come into force. Regulations may be passed under the Act to deal with a broader range of topics including the establishment and funding of forests, the branding of

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forest products, import and export of timber (which is also governed by the Biosecurity Act 1993 and Hazardous Substances and New Organisms Act 1996), and the operation of forests and sawmills. Regulations dealing with forestry loans and grants, state forests and fees are presently in force.

- The *Forestry Encouragement Act 1962* allows MAF to provide loans to encourage forestry and it makes provision for “forestry encouragement agreements” with MAF to be registered against the title to the land.
- The *Forest and Rural Fires Act 1977*, together with the *Forest and Rural Fires Regulations 2005*, amendments to the *Fire Service Act 1975* and the *Rural Fire Management Code of Practice* set out a framework for the control and prevention of forest fires. In addition to creating individual offences and obligations on forestry operators, amongst other persons, with regard to fires, fire breaks and fire prevention, the *Forest and Rural Fires Act 1977* creates fire control districts and authorities and places restrictions on access to exotic forests.
- The *Forestry Rights Registration Act 1983* allows the right to cultivate and fell a forest on another’s land to be registered as a specific interest in land under the land transfer regime.

General legislation

The following statutes (including any subordinate legislation), while not specific to forestry, are highly relevant:

- The *Biosecurity Act 1993* is concerned with preventing the importation of microbial, animal or plant pests into New Zealand. It also governs the surveillance of pests and certain organisms and provides a legislative framework for pest management within New Zealand.
- The *Hazardous Substances and New Organisms Act 1996* provides a legislative framework for the management (including the importation) of hazardous substances and new organisms and related decision-making.
- The *Te Ture Whenua Māori Act (Māori Land Act) 1993*, which places restrictions on the use and alienation of Māori land, is relevant when a forest is to be established (usually by lease or forestry right) on land registered as Māori land. There are procedures under the Māori Land Act 1993 which govern the granting, variation or assignment of interests in Māori land.
- The *Health and Safety in Employment Act 1992* (the “Employment Act”) deals with health and safety issues, requiring safety in the workplace and the provision of a safe working environment. It is enforced by the Occupational Safety and Health Service (“OSH”), a division of the Department of Labour. OSH and the forestry industry have established an Approved Code of Practice for Safety and Health in Forest Operations (the “Code”). Compliance with the Code is not mandatory, however non-compliance with the Code may be found to be non-compliance with the Employment Act. The Code places obligations on employers, self-employed people and employees and also recommends how to comply with the Employment Act.

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- The *Resource Management Act 1991* sets out a regime whereby regional and district councils are required to establish and administer plans to deal with the activities allowed within each council's area. The various forestry activities (including establishment, thinning and harvesting) are specified as permitted, controlled, discretionary or non-complying activities under each relevant plan. A resource consent must be obtained where an activity is a controlled, discretionary or non-complying activity (but not where the activity is a permitted activity. Most activities (including for water use and discharge of any run-off) which a forestry company is likely to undertake will, in all probability, require resource consents under the *Resource Management Act 1991*.

Other relevant statutes including those relating to fencing (*Fencing Act 1978*), control of introduced wild animals (*Wild Animal Control Act 1977*), customs and excise (*Customs and Excise Act 1996*), conservation of natural and historic resources (*Conservation Act 1978*), and laws relating to the preservation of historic places, including archaeological sites and those sacred to Māori (*Historic Places Act 1993*).

Overseas Investment

The law relating to overseas investment in New Zealand primarily is governed by the overseas Investment Act 2005 and Overseas Investment Regulations 2005. Investment by overseas persons (broadly non-New Zealand residents or companies in which non-New Zealand residents have greater than 25% control) in land deemed "sensitive" (including foreshore land, reserves, Māori reserves and non-urban land) may require the approval of the Minister of Finance and/or the Minister of Land. Approval may also be required for investment in non-land business assets worth NZ\$100 million or more.

Other Statutes

General laws relating to such areas as taxation, construction, employment, health and safety and immigration are also applicable to forestry and wood manufacturing facilities. Laws relating to competition (e.g. the *Commerce Act 1986*) and common law and statutory provisions on general contract law and corporate/commercial law will also apply to the pricing and contractual relationships of any company in New Zealand. New Zealand is a member of WIPO and has a number of statutes regulating intellectual property issues including, copyright, trade marks, designs, plant varieties and patents. New Zealand also has regimes regulating both on-market offers of securities to the public and preventing the misuse of insider or other confidential information.

In addition to these issues, any wood processing facilities would need to be established in areas designated for industrial use in the relevant "district" or "regional" plan. These are established by local authorities which also administer the resource management legislation.

International Dimensions

In 2008, the New Zealand government introduced an emissions trading scheme in an effort to meet its international climate change commitments.

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Under the scheme, emissions units will be freely awarded to owners of eligible forests, where those forests were planted prior to 1990.

The Mangakahia Forest has 9,825 hectare of such pre-1990 forest land. Under the 2010 draft Pre-1990 Forest Land Allocation Plan, which is currently being considered by the New Zealand government, it is proposed that 39 emissions units per hectare will be allocated to the owner of the Mangakahia Forest on the date the final Pre-1990 Forest Land Allocation Plan is issued.

The *Climate Change Response Act 2002* specifies that 15 of those 39 emissions units per hectare are to be transferred by 31 December 2012, with the remaining 24 emissions units per hectare to be transferred after 31 December 2012.

Principal Licenses/Permits/Certificates

The Group requires a number of licenses, permits or certificates to carry out its forestry activities. For example, the Group holds a number of consents which authorise the harvesting of plantation forestry in respect of environmentally 'sensitive' areas or activities on the properties – being streamside/riparian management areas, carrying out the quarrying and earthworks for the upgrade and construction of roads, tracks and landing sites, and the diversion and discharge of stormwater from land disturbance activities. The properties that already have the benefit of these consents are the Gammon, Rotu/Mamaranui and Opouteke blocks.

RISK RELATING TO THE TARGET GROUP'S BUSINESS AND INDUSTRY

Target Group's plantation business is subject to significant regulation, and its business, financial condition and results of operation could be adversely affected by regulatory changes in New Zealand.

The Target Group's plantation business in New Zealand is subject to regulation under a variety of New Zealand laws and regulations. Any significant regulatory changes in New Zealand, including but not limited to changes in forest related regulation, applicable environmental legislation and regulations, taxation policy, or any conditions attached to our permits or licenses may have a material adverse effect on the Target Group's business, financial condition and results operations. For further details of these regulations, see above information under the section headed "New Zealand Legal and Regulatory Overview".

Target Group's business is subject to environmental regulations

Laws and regulations protecting the environment and wildlife have generally become stricter in recent years and could become more stringent in the future. These laws and regulations require the Target Group to obtain certain licenses before it is permitted to carry out tree planting, timber harvesting and other forest practices as required for its business. These laws also cover the protection of endangered or threatened species which may exist on the Target Group's plantations. The Target Group may be required to incur significant costs, expenses, penalties and liabilities to comply with applicable environmental laws and regulations. Compliance with, or damages or penalties for violating, current and future environmental laws and regulations could result in reduced supply of timber for harvesting and in turn have a material

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adverse effect on the Target Group's business, financial condition and results of operations. To the best knowledge of the Target Group, the Target Group has complied with all relevant environmental regulatory requirements in New Zealand.

Any strengthening of these environmental laws and regulations in New Zealand or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing the Target Group's compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, which may place additional demands on its liquidity and adversely affect our results of operations.

Political, economic and social development in New Zealand may adversely affect the Target Group

As the Target Group conduct substantial business operations, and hold all its plantation assets in New Zealand, its business, prospects, financial condition and results of operations may be adversely affected by political, economic and social developments in New Zealand, as well as by regional events affecting New Zealand. Such political, economic and social developments may include, but are not limited to changes in government policies, political instability, expropriation, nullification of existing contracts, labour activism (such as general strikes), war, terrorism, riots and changes in interest rates, foreign exchange rates, taxation, environmental regulations and import and export duties and restrictions. Any such changes in New Zealand may have a material adverse effect on the Target Group's business, financial condition and results of operations.

Future movements in exchange rates may have a material adverse effect on our financial condition and results of operations

The Target Group had exposure to foreign currency risk as some of its sales and operating expenses and working capital, namely cash and bank balances, trade and other receivables and trade and other payables, are denominated in New Zealand Dollars other than United States Dollars, the functional and presentation currency of the Target Group.

Foreign exchange rate fluctuations among the New Zealand and United State Dollars may result in our experiencing foreign exchange losses and hence may have a material adverse effect on the Target Group's business, financial condition and results of operations.

The Target Group did not enter into any foreign currency swap agreements to hedge its foreign currency risk during the three financial years ended 31 December 2008, 2009, 2010 (the "Relevant Periods").

The Target Group's result may fluctuate due to revaluation gains or losses on its plantation assets

Under HKAS 41, the Target Group is required to reassess the fair value of its plantation assets less estimated point-of-sales costs at each balance sheet date. As there is no active market for such tree plantations, the Target Group determines its fair value using a net present value approach based on the projected net cash flows derived from the asset in future. The aggregate gain or loss arising from the initial recognition of tree plantation assets and from the change in the fair value of such assets, less estimated point-of-sales costs, is recognized in the Target Group's profit and loss statement as profit or loss, as the case may be. Any such profit reflects only unrealized gain on its plantation assets as at the relevant

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balance sheet date and does not generate actual cash inflow to the Target Group unless such plantation assets are disposed of at such revalued amounts.

Independent forestry asset valuers have been engaged to determine the fair value of the Target Group's tree plantations in New Zealand during the Relevant Periods. In valuing the Target Group's plantations using such net present value approach, a number of key assumptions are made by the independent valuers. These key assumptions include the relevant discount rate applied by the independent valuers, market prices for each grade of log produced, changes in production costs, natural tree growth, and the rate of harvesting and planting of trees at the Target Group's plantations, among others, which we use to make such net present value calculation.

During the Relevant Periods, the MFVL Group under the Target Group recorded the changes in fair value on plantation forest assets less estimated point-of-sale costs amounted to a loss of US\$14,607,000, a gain of US\$11,549,000 and a gain of US\$13,346,000, respectively. The Target Group's result from period to period may vary due to revaluation gains or losses required to be calculated at each balance sheet date under HKAS 41, reflecting fluctuations in prevailing market conditions. As a result, it cannot be assured that the Target Group will not record a decreasing fair value of its plantations assets less estimated point-of-sale costs in the future. Any such decrease in the fair value of its plantation assets less estimated point-of-sale costs may have an adverse effect on its results of operations.

As the Target Group's plantation assets are located in New Zealand and its reporting currency is the United State Dollar, fluctuations in foreign exchange rates between United States Dollars and New Zealand Dollars also may have an impact on the fair value of the Target Group's plantation assets.

The cyclical nature of the forest products industry and price fluctuation could adversely affect the Target Group's results of operations

The Target Group's results of operations are, and will continue to be, affected by the cyclical nature of the forest products industry. Market prices and demand for wood logs have been, and in the future are expected to be, subject to cyclical fluctuations, which have a significant effect on the Target Group's business, results of operations and financial condition. The pricing in the forestry market is affected by the prices of the ultimate wood products produced from logs in New Zealand, including furniture, construction materials, interior decoration materials and pulp and paper products. The prices of wood products are also affected by the availability of wood substitutes. The markets for wood products are sensitive to changes in industry capacity and output levels' general timber industry conditions and cyclical changes in the world and China's economies, any of which can have a significant impact on selling prices of wood products. The demand for wood products is also substantially affected by the level of new construction activity, which is subject to fluctuations that may or may not correspond to overall economic trends. Decreases in the level of construction activity generally reduce demand for wood products. The demand for wood products is also affected by the level of interior decoration activities. These activities are, in turn, subject to fluctuations due to, among other factors:

- changes in domestic and international economic conditions;
- changes in market prices of commodities;

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- governmental regulations and policies;
- interest rates;
- population growth and changing demographics; and
- seasonal weather cycles (such as dry or hot summers, wet or cold winters and other factors affecting tree growth).

Cyclical changes in the forest products industry, including changes in demand and pricing for the Target Group products and the other factors described above, could have a material adverse effect on the Target Group business, financial condition and results of operations.

The forestry industry is susceptible to weather conditions, timber growth cycles and natural disasters outside of the Target Group control

The Target Group business, financial condition and results of operations depend to a significant extent on its ability to harvest trees or engage in trading activities at adequate levels. The following factors, which are outside of the Target Group's control, may affect the prices of logs and wood-based products, and the Target Group ability to harvest the trees on its tree plantations or engage in its trading activities:

- unfavorable local and global weather conditions, such as prolonged drought, flooding, hailstorms, windstorms, typhoons, frost and winter freezing; and
- the occurrence of natural disasters, such as damage by fire, insect infestation, crop pests, and earthquakes.

The occurrence of these or other weather conditions or natural disasters may disrupt or reduce the supply of trees available for harvesting in the area of the New Zealand where the Target Group's tree plantations are located, or otherwise disrupt its trading activities, which may adversely affect the Target Group's business, financial condition and results of operations.

The Target Group may not be able to meet its expectations for the yields of its tree plantations

The success of the Target Group's business depends upon the productivity of its tree plantations and the ability to realize yields at estimated levels. Tree plantation yields depend on a number of factors, many of which may be beyond the Target Group control. These include weather, climate and soil conditions, as well as damage by disease, pests and other natural disasters. The Target Group's ability to maintain its yields will depend on these factors, and in particular the weather, climate and soil conditions for additional tree plantations that the Target Group may obtain in the future.

The Target Group ability to improve or maintain its yields will depend on the factors described above as well as the Target Group's ability to develop genetic improvements in planting materials, the ability to grow improved radiata pine trees and the ability to implement improved silvicultural practices

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as the Target Group gains experience in managing radiata pine tree plantations. As a result, the Target Group cannot provide any assurance that it will be able to realize the historical or future yields expected by the Target Group. If the Target Group cannot achieve yields at expected levels, its business, financial condition and results of operations would be materially and adversely affected.

The forest products industry is highly competitive

The forest products industry is highly competitive in terms of price and quality. Wood products are subject to increasing competition from a variety of substitute products, including non-wood and engineered wood products. The Target Group may not be able to compete effectively against these and other potential competitors. If the Target Group is not able to compete effectively in its different business lines, or if competition significantly increases, the Target Group's business, financial condition and results of operations could be materially and adversely affected.

The Target Group depends on services provided by third party service providers

The Target Group relies to a significant extent on third party service providers for the day-to-day operation of its tree plantations. The operations performed by third party service providers include site preparation, planting, plantation management, fertilisation, harvesting and trucking. If the Target Group is unable to obtain services from these third party service providers, at economical rates or at all, or if any of the services they provide are inadequately performed, the Target Group's business, financial condition and results of operations would be materially and adversely affected.

Reliance on certain key personnel of the forest management company

The success of the Target Group depends, in part, upon the continuous service and performance of certain key executive officers of the forest management company, which is responsible for all forestry operations and management services necessary for the skilful and diligent management of the plantation forest assets of the Target Group. The loss of any of these individuals could have a material adverse effect on the Target Group's business, financial condition and results of operations.

The Target Group's insurance coverage may be insufficient to cover losses

The Target Group insures its plantations in the New Zealand against certain accident and disaster related losses such as fires, lightning, explosion, flooding and windstorm. The Target Group does not, however, insure its plantations against losses from all natural and other disasters, such as pest and disease, and the Target Group does not carry business interruption insurance. As a result, the Target Group's insurance coverage may be insufficient to cover losses that it may incur on the Target Group's tree plantations. If the Target Group were to suffer an uninsured loss or a loss in excess of its insurance coverage to the tree plantations, the Target Group's business, financial condition and results of operations could be materially and adversely affected.

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Decrease in the export tax on logs in Russia may result in decreased demand for logs imported from Russia

The Russian government significantly increased the export tariffs on logs from 6.5% in early 2007 to 20% and 25% in July 2007 and April 2008, respectively. The increases had induced huge demand for New Zealand radiata pine as a substitute of Russia logs. If the Russian government reduces export tariffs in the future, the Target Group anticipates the demand for New Zealand logs that the Target Group exports may decrease as a result of reduced prices offered by its key competitors in Russia, which could have a material adverse effect on the Target Group's results of operations.

The Target Group may not realise its plan to increase its harvesting volume

The Target Group plans to increase its harvesting and sales volume in future. However, the Target Group's ability to release this plan may be limited by a number of factors, some of which are outside the Target Group's control. For example, the New Zealand government may impose regulations the effect of which is to restrict the volume the Target Group is permitted to harvest. In addition, the Target Group's ability to increase the harvest and sales volume is subject to other factors such as its ability to hire adequate subcontractors to harvest the trees and truck the felled trees, expand or develop its own customer relationships and, retain and hire qualified forest managers to manage and operate its plantation business. Any failure to implement its plan effectively could have a material adverse effect on its ability to implement the growth strategy.

Increase in interest rates may materially impact the Target Group's results of operations

Though the Shareholder's Loan currently owed by the Target Group is charged at a fixed interest rate, it will be partially replaced by either the Term Loan Facility or the Guarantor Term Loan Facility immediately before Completion. Both of these two loan facilities carry interest at floating rates. Exposure to floating interest rates subject the Target Group to risk of adverse interest rate movements. Unless the Target Group fully hedge its interest rate exposure, the Target Group will be exposed to interest rate risk resulting from fluctuations in the relevant reference rates. Any such increase in interest expense may have a material adverse effect on the Target Group's business, financial conditions and results of operations. Furthermore, if the Target Group decided to enter into agreements to hedge its interest rate risk, there can be no assurance that the Target Group will be able to do so on commercially reasonable terms or that these agreements, if entered into, will protect the Target Group fully against its interest rate risk.

The Target Group has substantial indebtedness which may adversely affect its financial health and ability to generate sufficient cash to satisfy its outstanding debt obligations

As mentioned above, the existing Shareholder's Loan owed by the Target Group will be partially replaced by either the Term Loan Facility or the Guarantor Term Loan Facility immediately before Completion. The Target Group's ability to generate sufficient cash to satisfy its outstanding debt obligations will depend upon the future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond the Target Group's control. The Target Group anticipates that its operating cash flow should be sufficient to service its debt obligations as they become due. However, the Target Group may not generate sufficient cash flow for these purposes. If the Target Group is unable to service its indebtedness, the Target Group will

LETTER FROM THE BOARD

be forced to adopt an alternative strategy that may include actions such as restructuring or refinancing its indebtedness or seeking additional funding from the Company etc. These strategies may not be instituted on satisfactory terms, if at all.

In addition, subject to the final terms with the provider of the Term Loan Facility or the Guarantor Term Loan Facility, certain of Target Group's financing arrangement may impose operating and financial restrictions on its business. These provisions may require the Target Group to, among other things, maintain a debt to equity ratio, an EBIT to interest expenses ratio, etc. above certain specified levels. The Target Group's ability to meet its financial ratios may be affected by events beyond the Target Group's control. The Target Group cannot be sure that it will be able to meet these ratios. If the Target Group is unable to comply the restrictions and covenants in its future debt and other agreements, there could be a default under the terms of these agreements and the lender may require the Target to repay the outstanding indebtedness immediately. If this occurs, the Target Group cannot be sure that its assets and cash flow would be sufficient to repay in full all of its indebtedness, or that the Target Group would be able to find alternative financing. Even if the Target Group could obtain alternative financing, it cannot be sure that it would be on terms that are favourable or acceptable to the Target Group. In this case, the Company may be required to inject additional funding to the Target Group to repay the outstanding indebtedness on its behalf.

INFORMATION RELATING TO THE TARGET GROUP

Target Co is a special purpose vehicle set up by Sino-Forest for the acquisition of the entire interests of MFVL which, together with its subsidiaries, in turn owns intensively managed pinus radiata plantation assets in New Zealand, i.e. the Mangakahia Forest. The Mangakahia Forest's freehold title land base totals 13,095 ha, of which 10,990 ha is net productive area. All but 80 ha of the productive area is owned freehold. These 80 ha are held through a single rotation forestry right. To the Company's knowledge, the Target Group has obtained all necessarily licences, permits, including forestry rights, harvesting rights etc, from the relevant Governmental Entity.

The Mangakahia Forest is located in the Northland region of New Zealand. Northland is the second largest plantation region in New Zealand and is recognized as one of the country's prominent plantation regions. This area features some of the highest growth rates in the country as a result of the favourable climate, fertile soil and year round rainfall. The average growth rate over the life of the Mangakahia Forest is estimated to be 25m³ per year. Since timber from the Northland region is characterised by high density and stiffness, the logs from Mangakahia Forest can be used to produce high-value sawlogs and is suitable for structural lumber fabrication and engineered wood products.

The average age of the trees in the Mangakahia Forest is approximately 23 years and the optimal harvest age in the Northland region for the production of structural timber is 27 years. The total recoverable volume of timber (i.e. stand age 20 years and older) was approximately 5.6 million m³ as at 31 December 2009. Of that amount, over 47% is currently merchantable (i.e. stands age 25 years and older). Furthermore, sawlogs account for over 61% of current merchantable inventory.

Target Co is an investment holding company incorporated in the British Virgin Islands with limited liability on 12 July 2010 for the sole purpose as the holding company of the MFVL Group. Set out below is the audited financial information of the Target Group and MFVL Group, prepared in accordance with the Hong Kong Financial Reporting Standards.

LETTER FROM THE BOARD

1. Target Group

**For the period from 12 July 2010
(being the date of incorporation) to
31 December 2010**
US\$'000

Revenue	41
Profit before tax	2,333
Profit after tax	1,434

Based on the audited consolidated financial statements of the Target Group set out in Appendix II to this circular which was prepared in accordance with the Hong Kong Financial Reporting Standards, the audited net assets as at 31 December 2010 were approximately US\$22,195,000.

2. MFVL Group

	For the year ended 31 December 2008 <i>US\$'000</i>	For the year ended 31 December 2009 <i>US\$'000</i>	For the year ended 31 December 2010 <i>US\$'000</i>
Revenue	11,827	8,765	997
Profit/(loss) before tax	(19,527)	5,082	11,340
Profit/(loss) after tax	(12,327)	3,235	8,937

Based on the audited consolidated financial statements of the MFVL Group set out in Appendix III to this circular which was prepared in accordance with Hong Kong Financial Reporting Standards, the audited net assets value as at 31 December 2010 were approximately US\$40,850,000.

FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Upon Completion, the Target Group Companies will be treated as subsidiaries of the Company and the financial results of the Target Group will be consolidated into the accounts of the Enlarged Group. As the Target Group is under common control of the same controlling shareholder of the Company (i.e. Sino-Forest), the Acquisition has been accounted for on the basis of merger accounting, under which the unaudited pro forma statement of assets and liabilities of the Enlarged Group is prepared as if the Acquisition had been completed on 22 October 2010 when the members of the Target Group first came under the control of Sino-Forest.

LETTER FROM THE BOARD

The unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix IV to this circular had been prepared to illustrate the effect of the Acquisition on the assets and liabilities of the Enlarged Group.

Assets and liabilities

As set out in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group in Appendix IV to this circular, the Group had unaudited total assets and total liabilities of approximately HK\$1,426,223,000 and HK\$249,501,000, respectively, as at 30 September 2010. Upon Completion, the Enlarged Group would have unaudited pro forma total assets and total liabilities of approximately HK\$2,018,843,000 and HK\$588,386,000, respectively.

Earnings

The Acquisition is expected to have an immediate effect on the earnings of the Group upon Completion. As stated in the paragraph headed “Reasons for and Benefits of entering into the Sale and Purchase Agreement” above, over 47% of the total recoverable volume of timber from the Mangakahia Forest as at 31 December 2009 is currently merchantable. The Acquisition is expected to generate long-term benefits to the Group.

Upon Completion, the Target Co will become a wholly-owned subsidiary of the Company and it is expected that the revenue and earnings before interest, taxation and depreciation of the Group will increase as a result of the Acquisition.

Cash flows

Since the Consideration is expected to be partly financed by the Company by allotting and issuing the Consideration Shares and partly financed by the Term Loan Facility or Guarantor Term Loan Facility (as the case may be), there will be no material immediate impact on the cash flows of the Enlarged Group upon Completion.

Gearing

As at 30 September 2010, except for the convertible notes with principal amount of HK\$195,000,000 (equivalent to US\$25,000,000), the Group had no bank or other borrowings outstanding. Accordingly, the Group’s gearing ratio, which was calculated on the basis of bank and other borrowings as a percentage of equity attributable to the equity holders of the Company was nil. Immediately upon Completion, the pro forma net assets of the Enlarged Group would be increased by approximately HK\$253,735,000 to approximately HK\$1,430,457,000 because of the substantial issue of the Consideration Shares. As it is agreed that the Target Group will enter into the Term Loan Facility or the Guarantor Term Loan Facility of US\$40 million, the gearing ratio of the Group is expected to increase to approximately 21.8% from Nil immediately upon Completion.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS

Master Sale and Purchase Agreement

(a) Background

Before the Group acquired an interest in Greenheart Suriname in November 2007, a master sale and purchase agreement was entered into between Greenheart Suriname and Sino-Forest Resources Inc. on 20 July 2007 pursuant to which Greenheart Suriname agreed to sell timber and timber related products to Sino-Forest Resources Inc. based on the terms and conditions as set out in the agreement. The term of the agreement ended on 31 January 2009 and no transaction was entered into between the parties pursuant to this agreement. To regulate the provision of products between Green Source (and its subsidiaries) and Sino-Wood (and its subsidiaries), Green Source and Sino-Wood entered into the Master Sale and Purchase Agreement on 7 January 2011 for a term of three years.

(b) Principal Terms of the Master Sale and Purchase Agreement

Date: 7 January 2011

Parties: (a) Sino-Wood; and

(b) Green Source

Provision of Products: Green Source (or any of its subsidiaries) has agreed to sell and supply to Sino-Wood (or any of its subsidiaries) products including but not limited to logs, standing timber, agri-forest, timber related and agri-related products (the “Products”).

The sale and purchase of the Products between Green Source (or any of its subsidiaries) and Sino-Wood (or any of its subsidiaries) shall be conducted on normal commercial terms and conditions and on such terms that are no more favourable than those applicable to the sales of the Products by the Group.

Term: Three years commencing from the date on which the Independent Shareholders’ approval of the Master Sale and Purchase Agreement is obtained.

Pricing Basis: The Products shall be priced by reference to the market price of similar sale in terms of the type of products, delivery options and methods and the guidance prices set by the government of the country of origin of the Products.

LETTER FROM THE BOARD

Deposits:	In order to lock-up the supply of Products, Sino-Wood agreed to pay to Green Source a deposit of US\$3 million, which will be deducted by setting-off 20% of the payment for each purchase order in respect of the Products to be provided by Greenheart Suriname until the entire deposit has been used up.
Payment Terms:	Except for purchase orders in relation to the Products to be supplied by Greenheart Suriname, all purchase orders shall be settled by letter of credit within 14 days upon acceptance of the specific purchase order by Green Source or its nominee.
Monthly Minimum Order Quantity:	Sino-Wood (or any of its subsidiaries) shall place purchase orders for at least 50% of the quantity of production forecast of the Products as set out in the tentative production schedule for each month.

(c) Proposed Annual Caps for the three financial years ending 31 December 2013

It is anticipated that the Proposed Annual Caps under the Master Sale and Purchase Agreement for each of the three financial years ending 31 December 2013 shall be as follows:

	12 months ending 31 December 2011	12 months ending 31 December 2012	12 months ending 31 December 2013
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Amount to be paid by Sino-Wood (and its subsidiaries) for Products supplied	30 million	80 million	100 million

The above annual caps are determined with reference to, among others, the following considerations:

- (a) the expected increase of production of logs and lumber from the Group's Suriname operation commencing from the first quarter of 2011 as a result of the acquisition of additional logging and transportation equipment and the completion of the ramp up of its existing sawmill;
- (b) the commencement of the trial run production of the Group's 100,000 m³ sawmill plant in Suriname in the fourth quarter of 2011 and the expected commencement of full operations in the first quarter of 2012;
- (c) the expected increase in production from the Mangakahia Forest, if the Acquisition is completed;
- (d) the expected expansion of the Group's sourcing network and acquisition of further forest assets; and

LETTER FROM THE BOARD

- (e) the expected increase in demand of wood products from the Sino-Forest Group as a result of the economy growth of China and the increasing trend in demand for wood fibre in China, which is the operating and customer base of the Sino-Forest Group.

(d) *Reasons for and Benefits of entering into the Master Sale and Purchase Agreement*

Given the close relationship between the Company and Sino-Forest, it had been the objective to cultivate the Company as Sino-Forest's partner and platform for sourcing international forestry assets and wood products to serve China's huge wood deficit. The entering into the Master Sale and Purchase Agreement will allow the Company to access Sino-Forest's extensive sales and marketing network in China immediately, which is important in promoting some of the Group's lesser known species to the China market. It also enables the Group to have a stable demand from a creditable customer to plan for its production and future expansion plan.

The Directors (including the independent non-executive Directors) consider that the entering into the Master Sale and Purchase Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, and the terms of the Master Sale and Purchase Agreement and the Proposed Annual Caps are determined after arm's length negotiation and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(e) *Listing Rules Implications*

Sino-Wood is an indirect wholly-owned subsidiary of Sino-Forest and is therefore a connected person of the Company under the Listing Rules. The provision of the Products between Green Source (and its subsidiaries) and Sino-Wood (and its subsidiaries) pursuant to the Master Sale and Purchase Agreement therefore constitutes continuing connected transactions of the Company.

As each of the applicable percentage ratios (other than the profits ratio) for the Proposed Annual Caps under the Master Sale and Purchase Agreement is more than 5%, the continuing connected transactions contemplated under the Master Sale and Purchase Agreement and the Proposed Annual Caps are subject to the reporting, announcement, Independent Shareholders' approval and annual review requirements under the Listing Rules.

INFORMATION RELATING TO THE SINO-FOREST GROUP

Sino-Forest

Sino-Forest is a company listed on the Toronto Stock Exchange under the symbol TRE since 1995 with approximately CAD\$5.5 billion market capitalization as at the Latest Practicable Date. 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 forest plantation operator in China and operates in nine key provinces in China, with over 3,000 full-time employees.

LETTER FROM THE BOARD

Sino-Wood

Sino-Wood, a limited company incorporated in the British Virgin Islands, is an indirect wholly-owned subsidiary of Sino-Forest and is engaged in the trading business of timber, timber related and wood related products for itself and on behalf of the Sino-Forest Group.

Sino-Capital

Sino-Capital, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of Sino-Forest and its principal business is investment holding.

INFORMATION RELATING TO THE GROUP

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.

Greenheart Suriname

Greenheart Suriname, a company incorporated under the laws of the British Virgin Islands, is an indirect non-wholly owned subsidiary of the Company.

Greenheart Suriname and its subsidiaries hold a forest concession for the exploitation of timber on a parcel of land in Suriname, South America. Their principal business activities include log harvesting, lumber processing and sale of logs and lumber products.

Green Source

Green Source, a limited company incorporated in the British Virgin Islands, is an indirect wholly-owned subsidiary of the Company and is mainly engaged in the sales of timber and timber related products for itself and on behalf of the Group.

SGM

The SGM will be held at 10:00 a.m. at Oasis Room, 8/F, Renaissance Harbour View Hotel Hong Kong, No. 1 Harbour Road, Wanchai, Hong Kong on 28 March 2011 to consider and, if thought fit, approve, inter alia, the Sale and Purchase Agreement, the Mater Sale and Purchase Agreement and the transactions contemplated under each of the agreements. A SGM notice is set out on pages 177 to 178 of this circular.

Sino-Capital and its associates will abstain from voting at the SGM with respect to the resolutions approving the major and connected transaction and the continuing connected transactions. As at the Latest Practicable Date and to the best of the Directors' knowledge, Sino-Capital and its associates hold 399,024,150 Shares, representing approximately 58.45% of the issued share capital of the Company.

LETTER FROM THE BOARD

Save as disclosed, no other Shareholders have a material interest in the major and connected transaction contemplated under the Sale and Purchase Agreement and the continuing connected transactions contemplated under the Master Sale and Purchase Agreement and are required to abstain from voting in respect of the approval of the major and connected transaction and continuing connected transactions at the forthcoming SGM.

For the purpose of the SGM, the Board has established the Independent Board Committee to consider and advise the Independent Shareholders with respect to the entry into the Sale and Purchase Agreement and the Master Sale and Purchase Agreement. The Company has also appointed the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on those aspects of the major and connected transaction and the continuing connected transactions.

None of the Directors had a material interest in the Sale and Purchase Agreement or the Master Sale and Purchase Agreement and was required to abstain from voting on the Board resolutions for considering and approving each of the Sale and Purchase Agreement and the Master Sale and Purchase Agreement and the respective transactions contemplated under each of the agreements pursuant to the Listing Rules and the bye-laws 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 bye-laws of the Company and Tricor Tengis Limited, the branch share registrar of the Company in Hong Kong, will serve as the scrutineer for the vote-taking.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 38 to 39 of this circular which contains its recommendations to the Independent Shareholders on the Sale and Purchase Agreement and the Master Sale and Purchase Agreement and the transactions contemplated thereunder. Your attention is also drawn to the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the Master Sale and Purchase Agreement and the transactions contemplated thereunder as set out on pages 40 to 69 of this circular.

LETTER FROM THE BOARD

The Directors consider that the Sale and Purchase Agreement and the Master Sale and Purchase Agreement 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 Sale and Purchase Agreement, the Master Sale and Purchase Agreement and the transactions contemplated under each of the agreements.

ADDITIONAL INFORMATION

Additional information is also set out in the appendixes of this circular for your information.

Yours faithfully,

For and on behalf of the Board

William Judson Martin

President, Chief Executive Officer and Executive Director



GREENHEART GROUP LIMITED

綠森集團有限公司*

(formerly known as “Omnicorp Limited”,

“兩儀控股有限公司”*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

11 March 2011

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

AND

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 11 March 2011 (the “**Circular**”), of which this letter forms a part. Terms defined in the Circular bear the same meanings herein unless the context requires otherwise.

We have been appointed as members of the Independent Board Committee to consider the major and connected transaction contemplated under the Sale and Purchase Agreement and the continuing connected transactions contemplated under the Master Sale and Purchase Agreement and to advise the Independent Shareholders whether, in our opinion, the terms of the major and connected transaction contemplated under the Sale and Purchase Agreement and the continuing connected transactions contemplated under the Master Sale and Purchase Agreement (including the Proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. The Independent Financial Adviser, Haitong International Capital Limited, 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 37 of the Circular, which contains, inter alia, information on the Sale and Purchase Agreement and the Master Sale and Purchase Agreement and the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement, the Master Sale and Purchase Agreement and the Proposed Annual Caps as set out on pages 40 to 69 of the Circular.

* for identification purpose only.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

After taking into consideration the advice from the Independent Financial Adviser, we concur with the views of the Independent Financial Adviser and consider that the entering into the Sale and Purchase Agreement, the Master Sale and Purchase Agreement and the Proposed Annual Caps 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. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Sale and Purchase Agreement and the Master Sale and Purchase Agreement.

Yours faithfully,

Wong Kin Chi

Wong Che Keung Richard

Tong Yee Yung Joseph

Independent Board Committee

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter received from Haitong International Capital Limited setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the major and connected transaction and the continuing connected transactions for inclusion in this circular.



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

11 March 2011

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION INVOLVING ISSUE OF CONSIDERATION SHARES

AND

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of (i) the Sale and Purchase Agreement in relation to the acquisition (the "Acquisition") of the entire issued share capital of Target Co, together with the assignment of Shareholder's Loan at the Consideration and (ii) the Master Sale and Purchase Agreement in relation to the provision of logs, standing timber, agri-forest, timber related and agri-related products by Green Source to Sino-Wood for a term of three years (the "Continuing Connected Transactions", together with the Acquisition the "Transactions"). Details of the Sale and Purchase Agreement and the Master Sale and Purchase Agreement are set out in the letter from the Board as contained in the circular of the Company dated 11 March 2011 ("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.

The Acquisition constitutes a major transaction for the Company under Rule 14.06(3) of the Listing Rules. As at the Latest Practicable Date, Sino-Capital, the controlling shareholder of the Company, is interested in approximately 58.45% of the total issued share capital of Company and is a connected person of the Company under the Listing Rules. Sino-Forest is the holding company of Sino-Capital and is therefore also a connected person of the Company under the Listing Rules. Accordingly,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Acquisition constitutes a connected transaction for the Company and is subject to the approval of the Independent Shareholders under Chapter 14A of the Listing Rules. Green Source is an indirect wholly-owned subsidiary of the Company. The provision of logs, standing timber, agri-forest, timber related and agri-related products under the Master Sale and Purchase Agreement by Green Source to Sino-Wood, a wholly-owned subsidiary of Sino-Forest, constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. Since the Company anticipates that the annual aggregate value of the Continuing Connected Transactions is expected to be more than HK\$10,000,000 and as each of the applicable percentage ratios (other than the profit ratio) for the Proposed Annual Caps is more than 5%, the Continuing Connected Transactions contemplated under the Master Sale and Purchase Agreement and the Proposed Annual Caps are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rules 14A.45 to 14A.48 and 14A.52 to 14A.54 of the Listing Rules. Sino-Capital and its respective associates will abstain from voting in relation to the ordinary resolutions to be put forward at the SGM for the purpose of approving the Sale and Purchase Agreement, the Master Sale and Purchase Agreement (including the Proposed Annual Caps) and the transactions contemplated thereunder.

The Independent Board Committee comprising all the independent non-executive Directors, namely Messrs. Wong Kin Chi, Wong Che Keung Richard and Tong Yee Yung Joseph has been established to advise the Independent Shareholders as to whether the Acquisition and the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole and how to vote on the relevant resolutions in the SGM. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 Sale and Purchase Agreement, the Master Sale and Purchase Agreement, the announcements, annual and interim reports of the Company 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 Transactions, and considered 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 (including Green Source), Sino-Capital and Sino-Wood.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Transactions, we have considered the following principal factors and reasons:

I. INFORMATION ON THE GROUP

1. Business and history of the Group

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.

The Group started engaging in the forestry business in 2007, after the completion of its acquisition of a 60.39% interest of Greenheart Suriname. Greenheart Suriname and its subsidiaries hold a forest concession for the exploitation of timber on a parcel of land in Suriname, South America. Greenheart Suriname and its subsidiaries' principal business activities include log harvesting, lumber processing and sale of logs and lumber products.

According to the annual report (the "Annual Report") of the Company for the year ended 31 December 2009, the Group continues to expand its sales network in China, one of the major and strong growing consumption markets for timber and hardwood products. To support the strong demand of forestry timber products, the Group budgets further capital investments, including building its own jetty, further investment in logging and transportation equipment, together with the planned new sawmill and better infrastructure in the Group's camp site. In addition to organic growth, the Group was also actively exploring certain investment opportunities. The Group was planning to accelerate its expansion plan through mergers and acquisitions so as to build up and transform the Group into a world leading wood supplier.

To strengthen its capital base and to prepare for the possible upcoming investment opportunities, as disclosed in the announcement of the Company dated 22 June 2010 and the circular of the Company dated 13 July 2010, the Company issued new shares and convertible notes to Sino-Capital and Greater Sino Holdings Limited respectively (the "Issuance"). The net proceed from the Issuance amounted to approximately HK\$609.0 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Financial information of the Group

Financial results

The table below summarises the Group's consolidated financial information extracted from the Annual Report and from the unaudited results announcement (the "Announcement") for the nine months ended 30 September 2010 dated 9 November 2010:

	Year ended 31 December 2008 HK\$'000 (Audited)	Year ended 31 December 2009 HK\$'000 (Audited)	Nine months ended 30 September 2009 HK\$'000 (Unaudited)	Nine months ended 30 September 2010 HK\$'000 (Unaudited)
Revenue	4,773	11,226	8,975	11,137
Gross profit	807	5,814	3,850	6,049
Gross profit margin	16.9%	51.8%	42.9%	54.3%
Share of results of associates	(50,982)	(1,725)	(1,781)	(1,667)
Loss attributable to equity holders of the Company	(103,783)	(86,247)	(66,591)	(47,772)

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 as compared to the revenue of 2008. During 2009, the Group successfully penetrated into the PRC market by building up its own sales network. Gross profit margin increased substantially from 16.9% in 2008 to 51.8% in 2009 owing mainly to the increase in selling price in log and timber. 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 in 2009 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 expenses incurred in relation to the grant of share options by the Company to staff of the Group and other eligible persons during the year amounted to approximately HK\$24.3 million which was non-recurring and non-cash in nature.

The Group recorded total revenue of approximately HK\$11.1 million for the nine months ended 30 September 2010, representing an increase of 24.1% over the corresponding period in 2009. As advised by the management of the Group, the increase in revenue was mainly contributed by the significant surge in sales orders of the Group's logs and timber products during the current period as a result of increasing of the market acceptance of the Group's products, including those lesser known species, through the strengthened sales and marketing efforts and the increase in the Group's log supply even in slow wet season by improving the operation efficiency and the better utilization of the transport capacity. The steady increase in the sales orders will provide the Group with accelerating momentum to further develop

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its business and to achieve economy of scales. With the gradual revival of the global economy and the significant improvement of the Group's fundamentals, the management of the Group anticipated that higher sales volume and more significant positive contributions from the sales of the Group's products can be achieved. Gross profit of the Group increased by 57.1% to approximately HK\$6.0 million for the nine months ended 30 September 2010, the increase was generally in line with the increase of the revenue. Gross profit margin increased by 11.4 percentage points to 54.3% when compared to the corresponding period in 2009, due to the rise in the average selling price of the Group's logs and timber. The Group's loss attributable to the equity holders of the Company improved by approximately HK\$18.8 million to approximately HK\$47.8 million when compared to the corresponding period last year as a result of the improvement in sales.

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 continuously 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.

Financial position

The following is a summary of the Group's consolidated financial position as at 31 December 2009 and 30 September 2010:

	As at 31 December 2009 HK\$'000 (Audited)	As at 30 September 2010 HK\$'000 (Unaudited)
Timber concessions and cutting rights	747,384	744,302
Other total non-current assets	50,367	38,863
Cash and cash equivalents	40,916	632,594
Other total current assets	11,180	10,464
Total assets	<u>849,847</u>	<u>1,426,223</u>
Total current liabilities	(28,778)	(34,199)
Convertible bonds	(237,000)	(141,800)
Deferred tax liabilities	(73,807)	(73,502)
Total liabilities	<u>(339,585)</u>	<u>(249,501)</u>
Total equity	<u><u>510,262</u></u>	<u><u>1,176,722</u></u>

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As at 31 December 2009, the Group had total assets of approximately HK\$849.8 million, including timber concessions and cutting rights of approximately HK\$747.4 million (accounting for approximately 87.9% of the total assets of the Group), property plant and equipment of approximately HK\$17.2 million (accounting for approximately 2.0% of the total assets of the Group) and cash and cash equivalents of approximately HK\$40.9 million (accounting for approximately 4.8% of the total assets of the Group). The timber concessions and cutting rights of the Group represent the right of exploitation of timer on a parcel of land in Suriname, South America, held by Greenheart Suriname.

Total liabilities of the Group as at 31 December 2009 amounted to approximately HK\$339.6 million including convertible bonds of approximately HK\$237.0 million (accounting for approximately 69.8% of the total liabilities of the Group) and deferred tax liabilities of approximately HK\$73.8 million (accounting for approximately 21.7% of the total liabilities of the Group).

As at 30 September 2010, the Group had total assets of approximately HK\$1,426.0 million, with timber concessions and cutting rights remained the largest balance sheet item amounted to approximately HK\$744.3 million. The Group's financial position as at 30 September 2010 had been strengthened as compared to 31 December 2009, owing to substantial increase in cash as a result of the net proceeds from the Issuance amounted to approximately HK\$609.0 million.

II. INFORMATION ABOUT THE SINO-FOREST GROUP

Sino-Forest is a company listed on the Toronto Stock Exchange under the symbol TRE since 1995 with approximately CAD\$5.5 billion market capitalization as at the Latest Practicable Date. Sino-Forest's principal businesses include the ownership and management of tree plantations, 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 nine key provinces in China, with over 3,000 full-time employees. As at 30 September 2010, Sino-Forest had approximately 756,800 hectares of forestry plantation under management which are located primarily in southern and eastern China. Sino-Forest is a pioneer in the plantation industry and has an established track record of over 15 years of strong growth and profitability.

Sino-Capital is a direct wholly-owned subsidiary of Sino-Forest. Sino-Capital is incorporated in the British Virgin Islands and its principal business is investment holding.

Sino-Wood is a limited company incorporated in the British Virgin Islands, is an indirect wholly-owned subsidiary of Sino-Forest and is engaged in the trading business of timber, timber related and wood related products for itself and on behalf of the Sino-Forest Group.

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III. THE ACQUISITION

1. Background to and reasons for the Acquisition

Prior to Sino-Forest becoming the controlling Shareholder, Sino-Forest had become aware of a valuable radiata pine plantation located in New Zealand (i.e. Mangakahia Forest) that would be up for auction. Sino-Forest did not want to lose the opportunity so it has placed a bid on Mangakahia Forest. Eventually, Sino-Forest was successful in its bid and the acquisition was completed recently in October 2010. After discussion with Sino-Forest, both of Sino-Forest and the Company agree that the transfer of Mangakahia Forest to the Company will strengthen the synergies between the two companies.

The Group currently processes hardwood forestry resources in Suriname, South America. As mentioned in the Annual Report and the Group's 2010 interim report, the Group has been actively exploring investment opportunities to improve the Group's operating results and maximize its shareholders' value. Upon the completion of the Acquisition, the Group will be able to expand its foothold from Suriname to New Zealand which will strengthen its strategy in supplying wood from outside China to China. In addition, as over 47.0% of the total recoverable volume of timber of Mangakahia Forest as at 31 December 2009 is currently merchantable, it is expected that Mangakahia Forest will generate immediate strong operating cash flow for the Group upon completion of the Acquisition.

The Directors consider that the Acquisition will be instrumental for the Group to further tap the increasing market demand of wood fibre through broadening its forest asset base and will bring additional earnings and long term value to the Group. The Directors consider that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and the Acquisition is in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Sale and Purchase Agreement

(i) Assets to be Acquired and Shareholder's Loan to be assigned

Pursuant to the Sale and Purchase Agreement, the Company as the purchaser, has conditionally agreed to acquire the Sales Shares and the Shareholder's Loan from Sino-Capital, the vendor. The maximum amount of Consideration for Target Co and the assignment of Shareholder's Loan amounted to approximately US\$37.0 million.

As at the date of the Sale and Purchase Agreement, NZ Holdco was indebted to Sino-Forest in the sum of approximately US\$50.7 million under the Shareholder's Loan. It is anticipated that, before Completion, NZ Holdco will enter into the Term Loan Facility or the Guarantor Term Loan Facility (as the case may be) and use the net proceeds from the drawdown thereof to repay the Shareholder's Loan in part. Any remaining outstanding amount of the Shareholder's Loan after partial repayment will be transferred from and assigned by Sino-Forest to Sino-Capital and will remain owing from NZ Holdco to Sino-Capital immediately before Completion.

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Subject to the terms and conditions of the Sale and Purchase Agreement, Sino-Capital has conditionally agree to sell and assign to the Company (or one of its subsidiaries as it may nominate) and the Company has conditionally agreed to purchase and accept (or procure its nominated subsidiary to accept) all of Sino-Capital's right, title, interest and benefits in and to the Shareholder's Loan.

(ii) *Conditions precedent to the Acquisition*

The Acquisition is conditional upon, among other things, (i) the Sale and Purchase Agreement and the transactions contemplated therein, in particular, the Acquisition, the Assignment and Share Issue, having been approved by the Independent Shareholders in a general meeting, other than those who are required to abstain from voting by law, the Listing Rules, the Stock Exchange and/ or the by-laws of the Company; (ii) all necessary Consents in relation to the transactions contemplated under the Sale and Purchase Agreement having been granted by third parties (including Governmental Entities); (iii) the listing of and permission to deal in the Consideration Shares have been granted by the Stock Exchange (either unconditionally or subject to customary conditions) and not being revoked prior to the Completion Date and (iv) the Company having obtained all Consents required under the OIA in relation to the transactions contemplated by the Sale and Purchase Agreement pursuant to the OIA in a form and on conditions reasonably acceptable to the Company and Sino-Capital.

As advised by the Directors, as at the Latest Practicable Date, condition (iv) mentioned above has been fulfilled.

(iii) *Consideration*

Pursuant to the Sale and Purchase Agreement, the Consideration shall be satisfied by allotment of up to 144,300,000 Consideration Shares by the Company at a price equal to the Issue Price per Consideration Share, each credited as fully paid and ranking *pari passu* with the existing ordinary shares of the Company saved that they will not be entitled to any dividend or other distribution declared by reference to a record date prior to their date of issue. The balance of the Consideration after deduction of the aggregate Issue Price for all Consideration Shares will be satisfied in cash. The actual amount of Consideration Shares to be issued shall be subject to the then 10 days average Closing Price of the Shares before Completion and the finalised amount of the Consideration upon Completion. The maximum amount of Consideration shall be approximately US\$37 million.

The Consideration was determined after arm's length negotiations between the Company and Sino-Capital with reference to the amount of consideration paid under the NZ SPA plus all costs and expenses reasonably incurred by Sino-Forest and/or its subsidiaries in connection with its acquisition of MFVL as well as the additional working capital funded by the Sino-Forest Group in connection with the daily operation of MFVL and its subsidiaries up to the date of the Sale and Purchase Agreement. The original purchase cost of MFVL by Sino-Forest Group under the NZ SPA was approximately US\$67.8 million.

(a) *Issue of the Consideration Shares*

Pursuant to the Sale and Purchase Agreement, the maximum amount of Consideration Shares to be allotted would be up to 144,300,000 new Shares, representing approximately 21.14% of the existing issued share capital of the Company as at the Latest Practicable Date.

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The Issue Price of the Consideration Shares shall be the average Closing Price on the last 10 consecutive Trading Days immediately prior to the Completion Date. We noted that the Issue Price was arrived at after arm's length negotiation between the Company and Sino-Capital.

Having considered the maximum amount of Consideration and the maximum number of Consideration Shares to be allotted of 144,300,000 Consideration Shares, for illustrative purpose, the issue price of the Consideration Shares will be HK\$2.0 per Consideration Share. The issue price of HK\$2.0 per Consideration Share represents:

- a discount of approximately 27.8% to the Closing Price of HK\$2.77 per Share as quoted on the Stock Exchange on 6 January 2011, being the last Trading Day prior to the date of the Sale and Purchase Agreement;
- a discount of approximately 27.3 % over the average Closing Price of approximately HK\$2.75 per Share as quoted on the Stock Exchange for the last 5 consecutive trading days up to and including the date of the Sale and Purchase Agreement;
- a discount of approximately 24.8 % over the average Closing Price of approximately HK\$2.66 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to and including the date of the Sale and Purchase Agreement;
- a discount of approximately 28.3% over the Closing Price of approximately HK\$2.79 per Share as quoted on the Stock Exchange on 8 March 2011 being the Latest Practicable Date; and
- a premium of approximately 14.3% over the Group's unaudited consolidated net assets value per Share of HK\$1.75 per Share as at 30 September 2010.

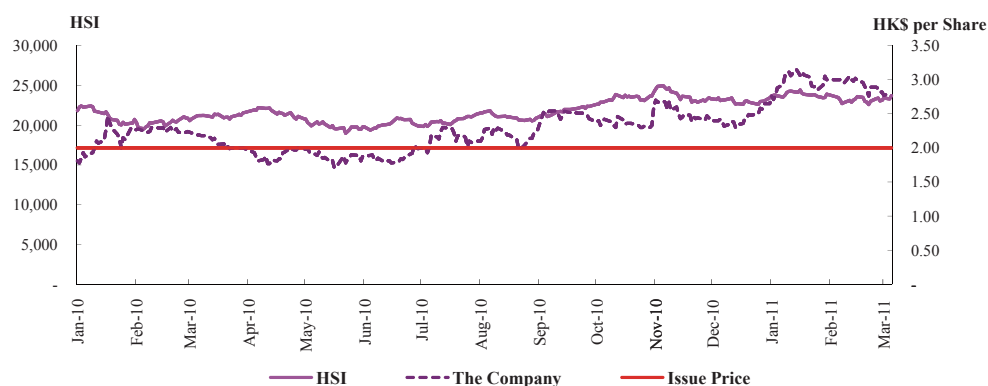
As the Issue Price of the Consideration Shares shall be the average Closing Price on the last 10 consecutive Trading Days immediately prior to the Completion Date, the exact Issue Price is yet to be determined as at the Latest Practicable Date and could be more or less than HK\$2 per Share. Having considered the Issue Price was arrived at after arm's length negotiation between the Company and Sino-Capital and will be referenced to the then market price upon Completion.

As the Issue Price of the Consideration Shares shall be determined by the then market price upon Completion and will be subject to price fluctuation, there is a possibility that in addition to the issuance of the maximum number of Consideration Shares, substantial portion of the Consideration will also have to be satisfied by cash. The Directors, having considered the current upward trend of the market price of the Shares and the continuous improvement of the financial position of the Group, are of the view that it is unlikely the abovementioned circumstance may occur. The determination of the Issue Price with reference to the then market price provides the Company with flexibility that the number of Consideration Shares to be issued will be less than the maximum number of Consideration Shares and thus possible reduction in dilution of the shareholding of existing public Shareholders owing to the increase in market prices of the Shares. Taking into account the abovementioned factors, the Directors are of the view that and we concur, the pricing mechanism for the Consideration Shares by making reference to the then average market price upon Completion is fair and reasonable as far as the Company is concerned and the Share Issue is in the interest of the Company and the Shareholders as a whole.

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(b) *Historical market price and liquidity of the Shares*

The chart below illustrates the movement of daily Closing Price of the Shares since 1 January 2010 up to the Latest Practicable Date (the “Review Period”) relative to the movement of the Hong Kong Hang Seng Index (“HSI”):

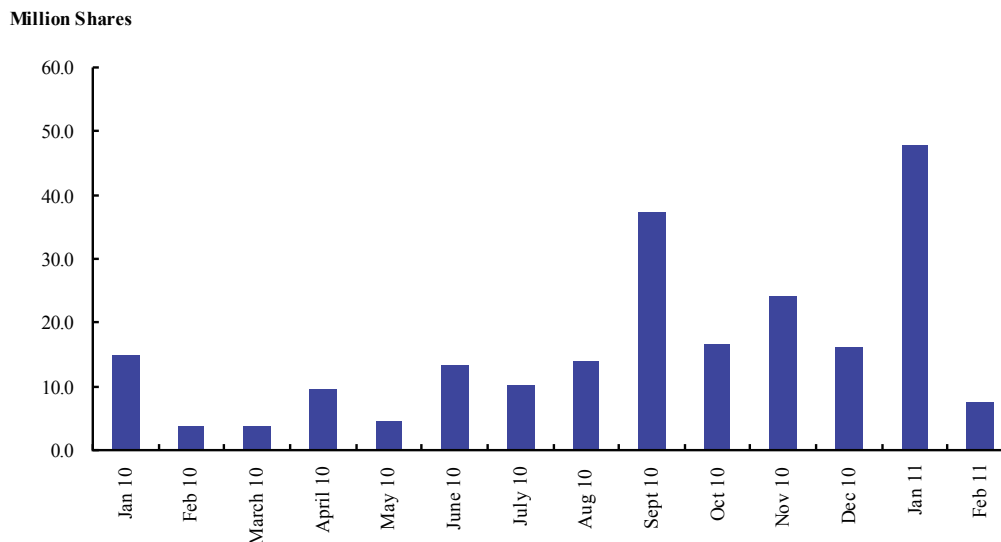


Source: Bloomberg

The graph above reflected that the performance of the Shares is generally in line with the movement of HSI. During the Review Period, the Closing Price of the Shares ranged from HK\$1.71 to HK\$3.15 per Share. The average Closing Price of the Shares for the Review Period was approximately HK\$2.30 per Share.

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The chart below shows monthly trading volume of Shares during the Review Period:



Source: Bloomberg

The Shares recorded an average monthly trading volume of 15.9 million shares during the Review Period. The percentage of the monthly trading volume of the Shares to the total number of issued Shares as at the end of each month ranges from 1.1% to 7.0%, with an average of 3.1%.

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(iv) Term Loan Facility and Guarantor Term Loan Facility

In order to repay the Shareholder's Loan owing to Sino-Forest, Target Co is in the process of obtaining a Term Loan Facility amounted to US\$40 million. Sino-Forest has agreed to provide a corporate guarantee as required under the Term Loan Facility throughout the life of the facility. In the event that, upon satisfaction of the conditions Target Co has not yet obtained the Term Loan Facility, Sino-Forest will enter into a definitive agreement for the Guarantor Term Loan Facility on terms and conditions satisfactory to the Company and in accordance with the terms as set out in the Sale and Purchase Agreement. Set out below are the major terms of the Guarantor Term Loan Facility extracted from the Sale and Purchase Agreement:

Facility amount:	US\$40 million
Interest rate:	3-month London Interbank Offered Rate+3.5% per annum (i.e. 3.8095% as at the Latest Practicable Date)
Availability and drawdown:	The facility will be available for drawdown from the date of the signing of the definitive agreement for the Guarantor Term Loan Facility.
Repayment and prepayment:	Target Co shall repay the loan in full on the earliest of (a) the second anniversary of the date of the first drawdown (Maturity Date); (b) the date on which Target Co has obtained the Term Loan Facility and made a drawdown thereunder; and (c) the demand for full repayment by the lender upon occurrence of any event of default. Target Co may prepay the loan in full (but not in part) before the Maturity Date at no prepayment fee.

It is agreed by the parties to the Sale and Purchase Agreement that the definitive agreement for the Guarantor Term Loan Facility shall be on normal commercial terms and no security over the assets of the Group shall be granted.

The Company further agreed that, if the Term Loan Facility has not been obtained by Target Co before satisfaction of the conditions precedent, it will consult Sino-Forest on the corporate guarantee to be given by Sino-Forest in connection with the Term Loan Facility, with a view to procuring that the Term Loan Facility is entered into as soon as practicable after Completion; and that the entire amount available under the Term Loan Facility (after deduction of bank's costs and expenses) is drawn down and used forthwith to repay the amount advanced under the Guarantor Term Loan Facility.

The Directors are of the view that the settlement of the Shareholder's Loan by the Term Loan Facility or Guarantor Term Loan Facility enables the Group to expand its business without an immediate outlay of a large amount of cash. According to the Directors, the terms and conditions of the Term Loan Facility and the Guarantor Term Loan Facility are generally comparable.

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We have reviewed the term sheet of the Term Loan Facility provided by financial institution and noted that the terms and conditions of the Term Loan Facility and the Guarantor Term Loan Facility are generally comparable. According to the indebtedness statement, as set out in Appendix I to the Circular, as at 31 January 2011, the Group did not have any banking facilities outstanding, thus we are unable to compare the terms of the current banking facility of the Group to the Guarantor Term Loan Facility. We have, however, compared the interest rate of the Guarantor Term Loan Facility to the interest rate under the convertible bonds of the Group. We noted that the interest rate under the Guarantor Term Loan Facility is no less favourable to the interest rate payable under the convertible bond.

As at the Latest Practicable Date, the Term Loan Facility has been obtained.

(v) *Valuation of the Target Group's asset*

An independent professional valuer, Jones Lang LaSalle Sallmanns Limited ("Sallmanns"), has performed valuation on the (a) forestry land and (b) plantation forest assets, (the "Target Asset") at an aggregate appraised value of NZ\$95.4 million (approximately US\$74 million) as at 31 December 2010. The text of the independent valuation reports in relation to the Target Asset as at 31 December 2010 are set out in the Appendix V and VI to the Circular. We have reviewed and discussed with Sallmanns the methodology of, and bases and assumptions adopted for, the valuation of the Target Asset as contained in the independent valuation reports.

(a) *Forestry land valuation*

In valuing the forestry land, a part of the Target Asset, Sallmanns has principally adopted the direct comparison approach and assuming sales of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant markets. The value of the forestry land as at 31 December 2010 was estimated to be approximately NZ\$15.4 million (approximately US\$12 million).

(b) *Plantation forest assets*

The value of the plantation forest assets as at 31 December 2010 was estimated to be approximately NZ\$80.0 million (approximately US\$62 million).

In valuing the plantation forest assets, we are advised by Sallmanns that there are several conventional capital investment valuation techniques namely the market approach, cost approach and income approach. In determining the fair value of the plantation forest assets, Sallmanns has adopted the income approach. Such method determines the value of plantation forest assets through the application of discounted cash flow method to devolve the future value of the plantation forest assets into a present value. The projected cash flows to the Group from the plantation forest assets has been discounted at a rate of approximately 11.0% per annum. When evaluating the appropriate discount rate, Sallmanns have used the weighted average cost of capital approach, taking into account a number of factors including the current market condition and the underlying inherent risks.

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We concur with Sallmanns that the income approach is suitable for valuing the plantation forest assets. As the cost of plantation forest assets at different locations or different species may not be similar and the economic benefits that can be derived from such plantation forest assets can also vary significantly due to a number of local economic factors, such as regional GDP growth and selling price of logs which the cost approach is not appropriate in this circumstance. Therefore, we regard the valuation methodology adopted by Sallmanns in valuing the relevant plantation forest assets acceptable and appropriate.

Bases and assumptions for the valuation of the plantation forest assets

We are also advised by Sallmanns that in valuing the plantation forest assets, it has also taken into account all relevant and significant factors affecting the operations of plantation forest assets such as harvesting volume and operating costs as prepared by the forestry consultant (independent forestry firm engaged by Target Group for day to day management of the Mangakahia Forest). We have reviewed and discussed with the forestry consultant in relation to the respective projections of harvesting volume and operating costs of the plantation forests. Based on our review, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions used in arriving at their valuation.

The Shareholders should be aware that, projections of revenue and profit are likely to be different from the actual revenue and profit since anticipated events frequently do not occur as expected and that projections of revenue and profit cannot be made with complete accuracy and are dependent on the assumptions made.

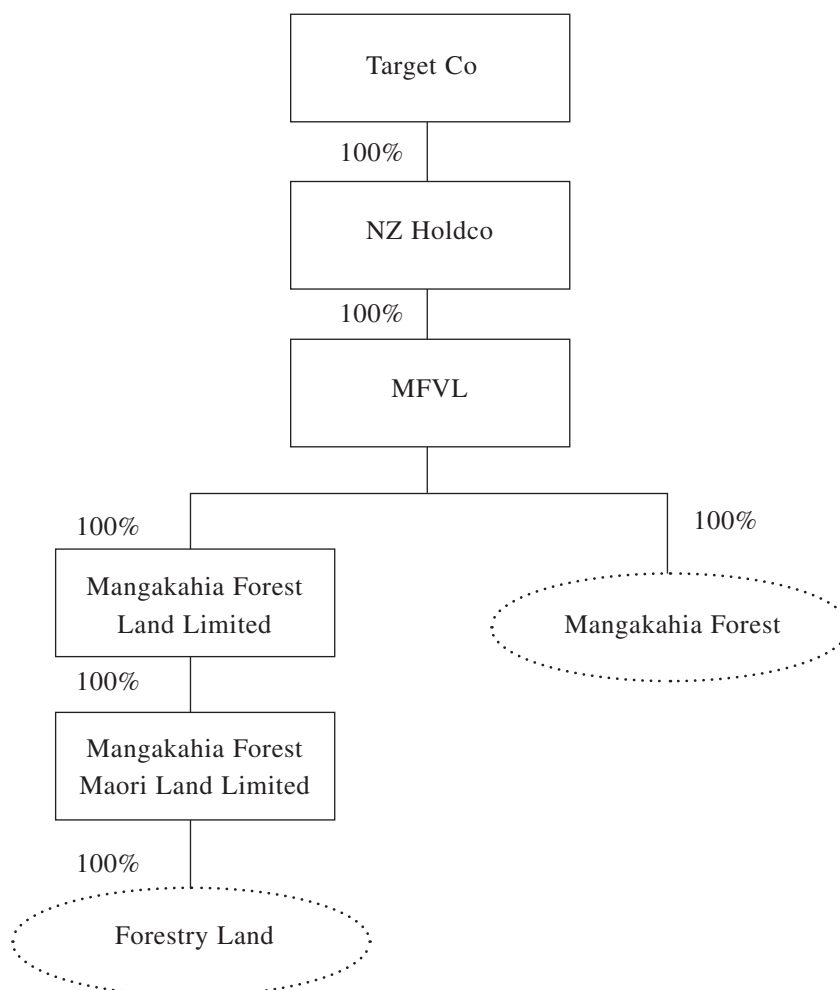
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Information on the Target Group

(i) *Business and financial performance of the Target Group*

Target Co is a special purpose vehicle incorporated in the British Virgin Islands with limited liability on 12 July 2010 by Sino-Forest for the sole purpose of the acquisition and holding of the entire interests of the MFVL Group which, together its subsidiaries (the “Target Group”), in turn own intensively managed radiata pine plantation forest assets in New Zealand (the “Mangakahia Forest”).

NZ Holdco is a company incorporated with limited liability in New Zealand and a direct wholly-owned subsidiary of Target Co. NZ Holdco holds the entire issued share capital of MFVL. Target Co, indirectly through MFVL holds the Mangakahia Forest. Set out below is the group chart of the Target Group immediately before completion of the Acquisition:



We have discussed with the management of the Mangakahia Forest. According to the Directors and the management of the Mangakahia Forest, the Mangakahia Forest’s freehold titled land base totals 13,095 hectares, of which 10,990 hectares is net productive area. All but 80 hectares of the productive area is owned freehold. These 80 hectares are held through a single rotation forestry right.

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The Mangakahia Forest is located in the Northland region of New Zealand, approximately 60kms west of Whangarei and 150kms north of New Zealand's largest city, Auckland. Northland is the second largest plantation region in New Zealand and is recognized as one of the country's permanent plantation region. This area features some of the highest growth rates in the country as a result of the favourable climate, fertile soil and year round rainfall. The average growth rate over the life of the Mangakahia Forest is estimated to be 25m³ per year. Since timber from the Northland region is characteristic by high density and stiffness characteristics, the logs from Mangakahia Forest can be used to produce high-value sawlogs and is suitable for structural lumber fabrication and engineered wood products.

The average age of the trees in the Mangakahia Forest is approximately 23 years and the optimal harvest age in the Northland region for the production of structural timber is 27 years. The total recoverable volume of timber (i.e. stand age 20 years and older) was approximately 5.6 million m³ as at 31 December 2009. Of that amount, over 47% is currently merchantable (i.e. stands age 25 years and older). Furthermore, saw logs account for over 61% of current merchantable inventory.

To the Company's knowledge, the Target Group has obtained all necessary licenses and permits, including forestry rights and harvesting rights etc. from the relevant government entity.

(a) Financial performance and position of the Target Group

The following are the summaries of the consolidated financial results and position of the Target Group for the period from 12 July 2010 (being the date of incorporation) to 31 December 2010. The accountants' report of the Target Group prepared in accordance with Hong Kong Financial Reporting Standards is set out in Appendix II to the Circular.

**For the period from 12 July 2010
(being the date of incorporation)
to 31 December 2010**
US\$'000
(Audited)

Revenue	41
Fair value gain on plantation forest assets	3,025
Profit for the period attributable to sole shareholder of Target Co.	1,434

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Revenue of the Target Group for the period from incorporation up to 31 December 2010 amounted to US\$41,000 mainly derived from the sales of logs from the Mangakahia Forest. The profit for the period attributable to the sole shareholder of Target Co was mainly derived from the changes in fair value of the plantation forest assets amounted to approximately US\$3.0 million upon initial acquisition of the MFVL Group.

	As at 31 December 2010
	<i>US\$'000</i>
	(Audited)
Total assets	75,977
Total liabilities	(53,782)
Net assets	22,195

As at 31 December 2010, major assets of the Target Group included plantation forest assets and property plant and equipment held under the MFVL Group in aggregate amounted to approximately US\$74.7 million, details of which are set out in the section headed “Financial performance and position of the MFVL Group” below. As at 31 December 2010, the Target Group maintained cash and bank balances of approximately US\$0.1 million with the Shareholder’s Loan of approximately US\$50.8 million outstanding. Other than the Shareholder’s Loan, the Target Group had no other bank and other borrowings as at 31 December 2010.

(b) Financial performance and position of the MFVL Group

1. Financial performance of the MFVL Group

The following are the summaries of the consolidated results of the MFVL Group for each of the three years ended 31 December 2010. The accountants’ report of the MFVL Group prepared in accordance with Hong Kong Financial Reporting Standards is set out in Appendix III to the Circular.

	For the year ended 31 December		
	2008	2009	2010
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
	(Audited)	(Audited)	(Audited)
Revenue	11,827	8,765	997
Fair value (loss)/gain on plantation forest assets	(14,607)	11,549	13,346
Fair value (loss)/gain on forestry land	–	(2,020)	2,020
(Loss)/ profit before tax	(19,527)	5,082	11,340
(Loss)/profit for the year attributable to shareholders of MFVL	(12,327)	3,235	8,937

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Revenue of the MFVL Group mainly represents sales of harvested logs. In year 2008 despite MFVL Group recorded revenue of approximately US\$11.8 million, owing to the fair value loss on plantation forest assets amounted to approximately US\$14.6 million, the MFVL Group recorded a loss attributable to shareholders of MFVL of approximately US\$12.3 million.

During 2009, the MFVL Group's revenue decreased by approximately 25.9% from approximately US\$11.8 million to approximately US\$8.8 million, due to the decrease in demand as a result of the global financial crisis. Contributed by the fair value gain on plantation forest assets amounted to approximately US\$11.5 million, despite the MFVL Group's revenue decreased and incurred a fair value loss on forestry land, the MFVL Group recorded a profit for the year attributable to shareholders of MFVL amounted to approximately US\$3.2 million.

For the year ended 31 December 2010, revenue of the MFVL Group decreased by approximately 88.6% from approximately US\$8.8 million to approximately US\$1.0 million, attributable by the minimal activities carried out by MFVL Group as a result of the winding up of the joint venture of the previous owners of the Mangakahia Forest and partitioning of the forest and land. Profit for the year attributable to shareholders of MFVL on the contrary increased substantially by approximately 176.3% from approximately US\$3.2 million to approximately US\$8.9 million as a result of the fair value gain on forestry land and plantation forest assets in aggregate amounted to approximately US\$15.4 million.

2. *Financial position of the MFVL Group*

	As at 31 December	
	2009	2010
	<i>US\$'000</i>	<i>US\$'000</i>
	(Audited)	(Audited)
Property, plant and equipment	9,881	13,129
Plantation forest assets	48,253	61,600
Total current assets	1,795	1,248
Total assets	59,929	75,977
Subordinated zero-coupon notes	(24,555)	-
Loan from immediate holding company	-	(26,874)
Due to immediate holding company	-	(367)
Other liabilities	(5,719)	(7,886)
Total liabilities	(30,274)	(35,127)
Net assets	29,655	40,850

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Property, plant and equipment

Property, plant and equipment mainly represented the fair value of forestry land amounted to US\$12.0 million as at 31 December 2010, accounted for 15.8% of total assets of the MFVL Group. Other property plant and equipment included capital roading and equipment.

The forestry land represents a freehold land in New Zealand. The forestry land was revalued on at each financial year end by independent professional valuers with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the MFVL Group.

Plantation forest assets

Plantation forest assets accounted for approximately 81.1% of the total assets of the MFVL Group. Plantation forest assets represent all trees planted on forestry land in New Zealand. The trees planted are for the production of logs and lumbers after harvest. Plantation forest assets are stated at fair value less costs to sell at the end of each reporting period. As at 31 December 2010, plantation forest assets were revalued by independent professional valuers at a fair value of approximately US\$61.6 million by applying the net present value approach.

Loan from immediate holding company and amount due to the immediate holding company

As at 31 December 2010, loan from immediate holding company amounted to approximately US\$26.9 million advanced from NZ Holdco, which was unsecured, borne interest at the rate of 5% per annum and is repayable on demand. Amount due to the immediate holding company of approximately US\$0.4 million was unsecured, interest-free and had no fixed terms of repayment. NZ Holdco has undertaken not to demand repayment of the amounts due to it until such time when the MFVL Group is in a position to repay without impairing its liquidity and financial position.

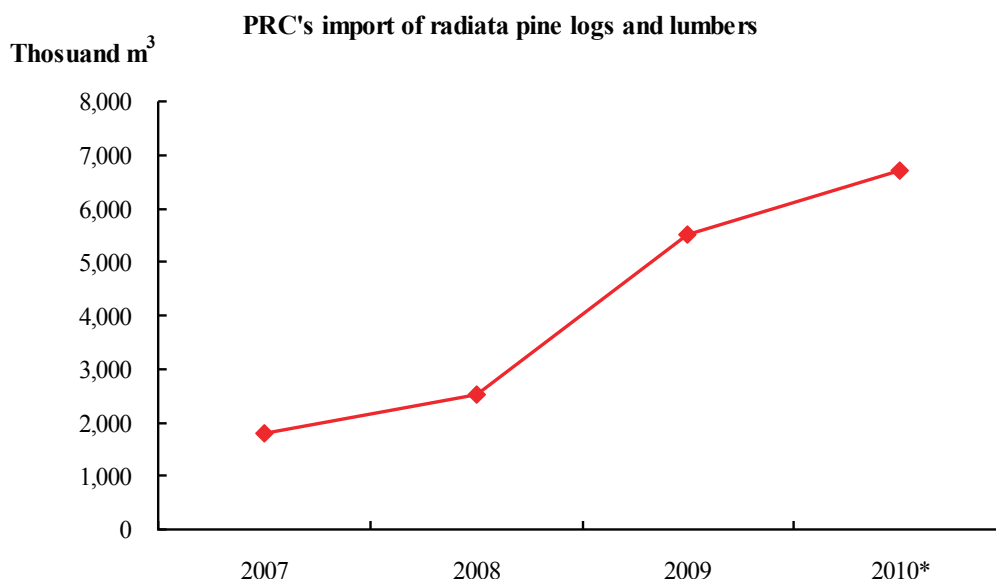
Subordinated zero-coupon notes

As at 31 December 2009, the MFVL Group had an outstanding unsecured subordinated zero-coupon notes balance ("Subordinated Notes") of approximately US\$24.6 million. The maturity date of the Subordinated Notes is 25 March 2032. During the year ended 31 December 2010, the Subordinated Notes were early redeemed by MFVL.

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(ii) Prospect of the Target Group

As the Group's major sales network is in the PRC, set out below is the import quantity of radiata pine logs and lumbers between 2007 and 2010 by PRC:



* For the eleven months ended 30 November 2010

Source: Wood Markets- China Bulletin 2010

As shown in the chart above, total PRC's import quantity of radiata pine logs and lumbers has increased substantially by 272.2% from approximately 1.8 million cubic meters for the year ended 31 December 2007 to approximately 6.7 million cubic meters for the eleven months ended 30 November 2010. Looking forward, we were advised by the Directors that they remain very optimistic about China's domestic growth and demand for timber. According to the "Draft of 12th Five-year plan (2011-2015)" which was approved at the PRC Central Government's 5th plenary meeting in October 2010, the Central Government intends to make PRC less dependent on exports and more reliant on domestic consumer spending and plans to improve livelihoods in rural villages through urbanization and construction of affordable housing. In fact, at the beginning of 2010, the Ministry of Housing and Urban Development of China, had announced its target to build 15.4 million housing units by 2012 and according to International Monetary Fund, it is anticipated that PRC's GDP will continue to robust growth of approximately 10.0% in 2010 to 2011, which will significant ramp up in demand for housing and construction materials including timber.

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4. Market Comparables

For the purpose of assessing the Consideration, we have reviewed and compared the market statistics on a best effort basis of all other companies which are principally engaged in the forestry industry with shares listed on Growth Enterprise Market board and the main board of the Stock Exchange (the “Comparable Companies”).

The following table sets out the comparison of the Consideration in terms of price to earnings ratio (“PER”) and price to book ratio (“PBR”) to those of the Comparable Companies:

Comparable Companies (Stock code)	PER (Note 1)	PBR (Note 1)
China Forestry Holdings Co., Ltd. (930) (Note 2)	15.1	0.8
China Timber Resources Group Ltd. (269)	N/A	4.6
Samling Global Ltd. (3938)	27.1	0.6
China Grand Forestry Green Resources Group Ltd. (910)	N/A	0.5
Sustainable Forest Holdings Ltd. (723)	6.6	0.6
China Asean Resources Ltd. (8186)	N/A	0.8
Superb Summit International Timber Co. Ltd. (1228)	2.4	0.4
The Company	N/A	2.1
Maximum	27.1	4.6
Minimum	2.4	0.4
Average	12.8	1.3
Target Group	8.62 (Note 3)	3.47 (Note 4)

Source: Bloomberg

Notes:

1. Calculated based on the closing share prices of the companies as at the Latest Practicable Date quoted by Bloomberg and the latest published financial information of the Comparable Companies.
2. Trading of shares of China Forestry Holdings Co., Ltd. was suspended as at the Latest Practicable Date.
3. Calculation of PER based on the maximum consideration of US\$37.0 million and the assignment of Shareholder’s Loan of US\$40 million and the MFVL Group’s 2010 full year profit as stated in Appendix III to the Circular, as Target Co. an investment holding company was only established on 12 July 2010 and no full year profit was available.
4. Calculation of PBR based on the maximum consideration of US\$37.0 million and the assignment of Shareholder’s Loan of US\$40 million and the Target Group’s net asset value as at 31 December 2010 as stated in Appendix II to the Circular.

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PER

As shown in the above table, the Comparable Companies are trading at PER in the rate of 2.4 to 27.1 times. The PER represented by the Consideration of about 8.62 times lies at the lower end amongst the Comparable Companies and is lower than the average PER of the Comparable Companies of 12.8 times.

PBR

As shown in the above table, the Comparable Companies are trading at PBR in the rate of 0.4 to 4.6 times. The PBR represented by the Consideration of about 3.47 times lies within the range of the Comparable Companies.

5. Effects on the shareholding structure of the Company

Set out below is the existing and enlarged shareholding structure of the Company as at the Latest Practicable Date and immediately after the completion of the Share Issue, assuming that (i) the maximum number of Consideration Shares are issued and (ii) the number of Consideration Shares to be issued at the issue price of HK\$2.84 per Share, being the closing price on the last 10 consecutive Trading Days immediately prior to the Latest Practicable Date:

	Shareholding as at the Latest Practicable Date and before Completion		Shareholding immediately after completion of the maximum number of Consideration Share issued		Shareholding immediately after completion of the Share Issue at the Closing Price on the last 10 consecutive Trading Days immediately prior to the Latest Practicable Date of HK\$2.84	
	<i>No. of Shares</i>	<i>Approx. Percentage</i>	<i>No. of Shares</i>	<i>Approx. Percentage</i>	<i>No. of Shares</i>	<i>Approx. Percentage</i>
Sino-Capital together with persons acting in concert with it	399,024,150	58.45%	543,324,150	65.70%	500,751,327	63.84%
General Enterprise Management Services Limited	7,000,000	1.03%	7,000,000	0.85%	7,000,000	0.89%
Directors and their associates	20,398,560	2.99%	20,398,560	2.47%	20,398,560	2.60%
Other Public Shareholders	256,226,442	37.53%	256,226,442	30.98%	256,226,442	32.67%
	<u>682,649,152</u>	<u>100%</u>	<u>826,949,152</u>	<u>100%</u>	<u>784,376,329</u>	<u>100%</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the basis that the maximum amount of Consideration Shares issued, the shareholding of existing public Shareholders will be changed from approximately 37.53% to approximately 30.98% respectively upon completion of the Acquisition.

The Issue Price will be equivalent to the average Closing Price on the last 10 consecutive Trading Days immediately prior to the Completion. In view of the increasing trend of the Share price subsequent to the publication of the major acquisition announcement on 7 January 2011 and taking into account the average Closing Price on the last 10 consecutive Trading Days immediately prior to the Latest Practicable Date of HK\$2.84, the number of Consideration Shares to be issued may be reduced if the Share price continues to ride on the increasing trend up to Completion as shown in the table above.

6. Method of funding

The funding of the Acquisition partly by Term Loan Facility or Guarantor Term Loan Facility and internal cash resources and partly by issue of Consideration Shares enables the Group to expand its business without a large outlay of cash or incurring substantial finance cost attributable to loan or interest bearing notes financing. The Directors, taking into account the upward trend of the market price of the Shares, consider that settling part of the Consideration through the issue of Consideration Shares will not incur substantial finance cost and be more cost effective.

The Directors have considered other means of raising permanent equity capital, including by means of a rights issue or an open offer available to all Shareholders. However, the discount to market price will need to be offered for a rights issue or for an open offer as compared to the current pricing mechanism of issuing the Consideration Shares at the then 10 days average market price upon Completion. We have reviewed the rights issue and open offer transactions published on the Stock Exchange website for the period from 1 January 2011 up to the Latest Practicable Date. We noted that the recent rights issue and open offer transactions were mostly underwritten at a price with substantial discount to the then market price. In addition, there would have been substantial underwriting costs, whereas relatively less professional fees are payable in relation to the issue of Consideration Shares, and a greater completion risk in today's volatile market conditions and additional time and procedures are required for a rights issue or an open offer. We concur with the Directors' view that the issue of Consideration Shares better controls the market and completion risks, as it is more cost-effective and time-efficient.

7. Risk Factor

The Acquisition will extend the business risk profile of the Group as set out under the "Risk relating to the Target Group's business and industry" section of the Letter from the Board as contained in the Circular. The Independent Shareholders may wish to bear in mind the following risk factors extracted from the "Risk relating to the Target Group's business and industry" section of the Letter from the Board as contained in Circular when considering the Acquisition. However, given New Zealand is a well established market in plantation forest industry, the Directors are comfortable that the possible risks are controllable and acceptable, thus, the Directors do not consider and we concur, the various risk factors associated to the Acquisition as stated below and in the section headed "Risk relating to the Target Group's business and industry" in the Circular, are generally greater than for any other typical investments in the New Zealand plantation forestry industry.

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(i) *Regulatory consideration*

After the completion of the Acquisition, the business of the Enlarged Group will be subject to the regulations of new jurisdictions such as the regulations of the New Zealand, New Zealand has implemented policies to regulated the forestry industry, any significant regulatory changes in New Zealand may have a material adverse effect on the Target Group's business, financial condition and results operations.

(ii) *Exchange rates*

The Target Group had exposure to foreign currency risk as some of its sales and operating expenses and working capital, namely cash and bank balances, trade and other receivables and trade and other payables, are denominated in New Zealand Dollars other than United States Dollars, the functional and presentation currency of the Target Group. Foreign exchange rate fluctuations among the New Zealand and United State Dollars may result in our experiencing foreign exchange losses and hence may have a material adverse effect on the Target Group's business, financial condition and results of operations. The Target Group did not enter into any foreign currency swap agreements to hedge its foreign currency risk for the three years ended 31 December 2010.

(iii) *The Target Group depends on services provided by third party service providers*

The Target Group relies to a significant extent on third party service providers for day-to-day operation of its tree plantations. The operations performed by third party service providers including but not limited to: site preparation, planting, plantation management, fertilization, harvesting and trucking. If the Target Group is unable to obtain services from these third party service providers, at economical rates or at all, or if any of the services they provide are inadequately performed, the Target Group business, financial condition and results of operations would be materially adversely affected.

(iv) *Reliance on certain key personnel of the forest management company*

The success of the Target Group depends, in part, upon the continuance service and performance of the certain key executive officers of the forest management company, which is responsible for all forestry operations and management services necessary for the skilful and diligent management of the plantation forest assets of the Target Group. These persons in the forest management company may leave in the future. The loss of any of these individuals could have a material adverse effect on the Target Group's business, financial condition and results of operation.

(v) *Export tax on logs in Russia*

The Russian government significantly increased the export tariffs on logs from 6.5% in early 2007 to 20% and 25% in July 2007 and April 2008, respectively. The increases had induced huge demand of New Zealand radiate pine as a substitute of Russia logs. If the Russian government reduces export tariffs in future, the Target Group anticipates the demand for New Zealand logs that the Target Group exports may decrease as a result of reduced prices offered by its key competitors in Russia, which could have a material adverse effect on the Target Group's result of operations.

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8. Financial effects of the Transactions

(i) *Effect on earnings*

The Target Group Companies would become subsidiaries of the Company upon completion of the Acquisition and the Target Group's results will be consolidated into the Group's consolidated financial statement. The Target Group on an aggregate basis has been profitable for the two years ended 31 December 2010 and is expected to have a positive impact on the revenue and earnings of the Group.

(ii) *Effect on net assets*

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

(iii) *Effect on gearing and working capital*

As at 30 September 2010, except for the convertible notes with principal amount of HK\$195 million (equivalent to US\$25 million), the Group had no bank or other borrowings outstanding. Accordingly, the Group's gearing ratio, which was calculated on the basis of bank and other borrowings as a percentage of equity attributable to the equity holders of the Company, as at 30 September 2010, was nil. According to Appendix IV to the Circular, immediately upon Completion, the pro forma net assets of the Enlarged Group would be increased by approximately HK\$253.7 million to approximately HK\$1,430.5 million owing to the substantial issue of the Consideration Shares. As it is agreed that the Target Group will enter into the Term Loan Facility or the Guarantor Term Loan Facility of US\$40 million, the gearing ratio of the Group is expected to increase from nil to approximately 21.8% upon Completion.

The balance of Consideration after deduction of the aggregate Issue Price for all the Consideration Shares will be satisfied by cash from the Group's own resources. In view of the Group's cash and cash equivalents of approximately HK\$632.6 million (equivalent to approximately US\$81.1 million) as at 30 September 2010 and the current market price of the Shares, the payment of cash consideration is not expected or to be of a significant amount and have a significant adverse effect on the Group's working capital. As we are unable to ascertain the final amount of Consideration to be satisfied by issue of Consideration Shares and cash at this moment until Completion, in view of the Group's cash and cash equivalents balance as at 30 September 2010, in the event that the entire maximum Consideration of US\$37 million shall be satisfied entirely by cash, the payment is not expected to have a significant adverse effect on the Group's working capital.

III. CONTINUING CONNECTED TRANSACTIONS

1. Background to and reasons for the Continuing Connected Transactions

The Sino-Forest Group, which engages in among other things the manufacturing of downstream engineered-wood products as mentioned in the section head "Information of the Sino-Forest Group", purchases timber products for production from time to time.

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Prior to the Group acquired an interest in Greenheart Suriname in November 2007, a master sale and purchase agreement was entered into between Greenheart Suriname and Sino-Forest Resources Inc (a subsidiary of Sino-Forest) on July 2007 in relation to the sales of timber and timber related products to Sino-Forest Resources Inc (the “2007 Master Agreement”). The 2007 Master Agreement expired on 31 January 2009. Accordingly, no sales to Sino-Forest Group have been made under the 2007 master agreement and from 1 February 2009 up to the Latest Practicable Date.

Since the Company anticipated that Green Source (a wholly-owned subsidiary of the Company) and its subsidiaries (the “Green Source Group”) will be supplying timber products to the Sino-Forest Group in the coming three years, to regulate the provision of products between the Green Source Group and Sino-Forest Group, Green Source and Sino-Wood entered into the Master Sale and Purchase Agreement on 7 January 2011 for the provision for products between the Green Source Group and Sino-Forest Group for a term of three years.

The Directors considered that, given the close relationship between the Group and Sino-Forest, it had been the objective to cultivate the Company as Sino-Forest’s partner and platform for sourcing international forestry assets and wood products to serve China’s huge wood deficit. The entering into the Master Sale and Purchase Agreement will allow the Group to access Sino-Forest’s extensive sales and marketing network in China immediately, which is in particular of vital importance in promoting some of the Group’s lesser known species to the China market. It also enables the Group to have a stable demand from a creditable customer to plan for its production and future expansion plan. The Directors further consider that the entering into the Master Sale and Purchase Agreement and the transactions contemplated thereunder are in ordinary and usual course of business of the Group.

2. Principal terms of the Continuing Connected Transactions

Pursuant to the Master Sale and Purchase Agreement, Green Source agrees to, for itself and its subsidiaries, sell and supply products including but not limited to logs, standing timer, agri-forest, timber related and agri-related products to the Sino-Forest Group for a term of three years.

In order to secure the supply of products, Sino-Wood agrees to pay to Green Source a deposit of US\$3.0 million, which will be deducted by setting-off 20.0% of the payment for each purchase order in respect of the Products to be provided by Greenheart Suriname until the entire deposit have been used up. Except for the purchase orders in relation to the Products to be supplied by Greenheart Suriname, all purchase orders shall be settled by letter of credit within 14 days upon acceptance of the specific purchase order by Green Source or its nominee.

The Products shall be priced by reference to the market price of similar sale in terms of the type of products, delivery options and methods and the guidance prices set by the government of the country of the origin of the Products. We consider the pricing of the Products with reference to the market price of similar sales and guidance prices set by the government of the country of the origin of the Products, are fair and reasonable.

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Monthly minimum order quantity

Pursuant to the Master Sale and Purchase Agreement, Sino-Wood (or any of its subsidiaries) shall place purchase orders for at least 50.0% of the quantity of production forecast of the Products as set out in the Group's tentative production schedule prepared by the management of the Group each month.

3. Comparison with terms with independent third parties

We have reviewed sample contacts between the Group and independent third parties for the provision of similar products. We noted that the terms and the basis of price determination for the Continuing Connected Transactions under the Master Sale and Purchase Agreement are no less favorable to the Group than the terms for similar transactions between the Group and independent third parties.

4. Proposed Annual Caps

The transactions contemplated under the Master Sale and Purchase Agreement are subject to the Listing Rules' requirements and conditions as more particularly discussed under the section headed "Reporting requirements and conditions of the Continuing Connected Transactions" below. In particular, the Continuing Connected Transactions are subject to the Proposed Annual Caps as discussed below.

Assessment of the Proposed Annual Caps

Set out below are the Proposed Annual Caps under the Master Sale and Purchase Agreement for each of the three years ending 31 December 2013:

	12 months ending 31 December		
	2011	2012	2013
	<i>(US\$ 'million)</i>	<i>(US\$ 'million)</i>	<i>(US\$ 'million)</i>
Amount to be paid by Sino-Wood (and its subsidiaries) for Products supplied	30	80	100

In assessing the reasonableness of the Proposed Annual Caps, we have discussed with the management of the Group the bases and assumptions underlying the projections for the sales of Products by the Group to the Sino-Forest Group for the purpose of determining the Proposed Annual Caps.

In determining the Proposed Annual Caps under the Master Sale and Purchase Agreement for the financial year ending 31 December 2011, the management of the Group have taken into account the expected increase of production of logs and lumber from the Group's Suriname operation commencing from the first quarter of 2011 as a result of the acquisition of additional logging and transportation equipment and the completion of the ramp up of its existing sawmill. The Proposed Annual Caps for the financial year ending 31 December 2011 also took into account the commencement of the trial run production of the Group's 100,000m³ sawmill plant in Suriname in the fourth quarter of 2011 and the expected increase in production from the Mangakahia Forest upon the expected completion of the Acquisition in the first half on 2011.

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We are advised by the Directors that demand for the Group's products are strong and selling prices are riding on an increasing trend according to market research with reference to The China Book, International Wood Markets Group Inc. However, supply of the Group's and MFVL's products in the past was not substantial. The harvesting from Mangakahia Forest was minimal for the year ended 31 December 2010 as a result of the winding up of the joint-venture and partitioning of the forest and land of the previous owners of Mangakahia Forest. Upon completion of the Acquisition, according to the Directors, the Group will significantly ramp up harvesting from the Mangakahia Forest, which according to the section headed "Business and financial performance of the Target Group", over 47% of the trees of Mangakahia Forest are harvestable. Supply from the Group's Suriname operation was hindered by the lack of logging and transportation equipment in the past, which will be resolved by the acquisition of additional logging and transportation equipment and will be available in 2011. We are further advised by the Directors that in the past, sales of the Group mainly consist of sales of logs without any further processing after harvesting. Upon the commencement of the trial run of the sawmill plant in Suriname, the Group will change the production mix of its products and focus on the sales of lumber instead of logs. Although selling price of both logs and lumber are riding on an upward trend, the selling prices of logs are substantially less than lumber which are semi-processed logs. We have reviewed the indicative price of hardwood logs and lumber. According to International Tropical Timber Organization, the export price of hardwood logs ranges from approximately US\$115 to US\$200 per m³ while the export price of hardwood sawnwood (i.e. lumber) ranges approximately from US\$400 to US\$848 per m³. The Directors are of the view that, as a result of the expected additional supply from both Suriname operation and from the Mangakahia Forest upon Completion, the Group's production will increase substantially to capture the blooming of the wood products demand.

The approximately 1.7 times increment for the Proposed Annual Caps for the financial year ending 31 December 2012 took into account the full year effect of the additional logging and transportation and the completion of the ramp up of its existing sawmill, the full operations of the Group's 100,000m³ sawmill plant in Suriname and the full year production of the Mangakahia Forest. A growth rate of 25.0% for the financial year ending 31 December 2013 has also been estimated by the management of the Group, after taking into account the expected growth of the PRC economy and the expansion of the PRC construction market and also the expected expansion of the Group's sourcing network and possible acquisition of further forest assets. The Proposed Annual Caps increments for the two financial years ending 31 December 2012 and 2013 have also catered for possible adjustments on the future selling price of the Products and inflation.

Pursuant to the Master Sale and Purchase Agreement, Sino-Wood (or any of its subsidiaries) shall place purchase orders for at least 50.0% of the quantity of production forecast of the Products as set out in the tentative production schedule for each month. In estimating the Proposed Annual Caps, the management of the Group has also taken into account the forecast of production of the Products.

The management of the Group remained very optimistic about China's domestic growth and demand for timber as mentioned in the section headed "Prospect of the Target Group". Total PRC's import quantity of radiata pine logs and lumbers has increased substantially by 272.2% from approximately 1.8 million cubic meters for the year ended 31 December 2007 to approximately 6.7 million cubic meters for the eleven months ended 30 November 2010. According to the National Bureau of Statistics of China, the floor space of building under construction increase substantially by 133.3% from 2.7 billion sq.m in year 2000 to 6.3 billion sq.m in year 2008. It was also announced by the Ministry of Housing and

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Urban Development of China that, the Ministry is aiming to build 15.4 million housing units by 2012. It is anticipated that increase in construction in the up coming years will further stimulate the demand for construction materials including the Group's Products and hence increase the purchase of Products by Sino-Forest in the coming years.

According to the Announcement, revenue of the Group for the nine months ended 30 September 2010 increased by around 25% when compared to the corresponding period in 2009. The management of the Group considers that there are promising potential in the fast-growing timber product market.

5. Reporting requirements and conditions of the Continuing Connected Transactions

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company (currently, Ernst & Young) must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the Company's annual report) confirming that the Continuing Connected Transactions:
 - (i) have received the approval of the Board;
 - (ii) are in accordance with the pricing policies of the Group (if applicable);
 - (iii) have been entered into in accordance with the relevant agreements governing the Transactions; and
 - (iv) have not exceeded the Proposed Annual Caps;
- (c) the Company shall allow, and shall procure the relevant counterparties to the Continuing Connected Transactions to allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and

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- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the value of the Continuing Connected Transactions by way of the Proposed Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Continuing Connected Transactions and the Proposed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to monitor the conduct of the Continuing Connected Transactions and assist to safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider the Sale and Purchase Agreement and the Master Sale and Purchase Agreement are on normal commercial terms and the Acquisition and the Continuing Connected Transactions (including the Proposed Annual Caps) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We also consider the Master Sale and Purchase Agreement was entered into in the ordinary and usual course of business of the Group. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Acquisition and the Continuing Connected Transactions (including the Proposed Annual Caps).

Yours faithfully,

For and on behalf of

Haitong International Capital Limited

Derek C.O. Chan
Managing Director

Terry Chu
Executive Director

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2009, 2008 and 2007 and the six months ended 30 June 2010 are disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.greenheartgroup.com>).

- annual report of the Company for the year ended 31 December 2009 published on 7 April 2010 (pages 28 to 98);
- annual report of the Company for the year ended 31 December 2008 published on 29 April 2009 (pages 30 to 104);
- annual report of the Company for the year ended 31 December 2007 published on 15 April 2008 (pages 37 to 112);
- interim report of the Company for the six months ended 30 June 2010 published on 25 August 2010 (pages 10 to 25); and
- unaudited results of the Company for the nine months ended 30 September 2010 published on 9 November 2010.

2. INDEBTEDNESS**Borrowings**

As at the close of business on 31 January 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Circular, the Enlarged Group had an outstanding unsecured loan from the ultimate holding company of approximately US\$51.7 million, (equivalent to approximately HK\$403.3 million) and unsecured convertible notes in the aggregate principal amount of US\$25 million (equivalent to approximately HK\$195 million).

Contingent liabilities

As at the close of business on 31 January 2011, the Enlarged Group had no significant contingent liabilities.

Disclaimer

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not, as at the close of business on 31 January 2011, 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.

3. WORKING CAPITAL

The Directors are of the opinion that in the absence of unforeseen circumstances, following the acquisition under the Sale and Purchase Agreement and after taking into account the financial resources available to the Enlarged Group including internally generated cash flows and other credit facilities available, the Enlarged Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP AND THE ENLARGED GROUP

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

Upon completion of the Acquisition, the Group will expand its forest asset portfolio from existing quality tropical hardwood to fast growing softwood and extend its foothold from Suriname to New Zealand which will strengthen its strategy in supplying wood from outside China for China. In addition, as over 47% of the total recoverable volume of timber as at 31 December 2009 is currently merchantable, it is expected that the Mangakahia Forest can generate immediate strong operating cashflow.

The entering into of the Master Sale and Purchase Agreement will allow the Company to access Sino-Forest's extensive sales and marketing network in China immediately, which is important in promoting some of the Group's lesser known species to the China market. It also enables the Enlarged Group to have a stable demand from a credible customer to plan for its production and future expansion plan.

The Directors are of the view that the Enlarged Group would benefit from the expansion of business scope and broaden of the revenue base.

Looking ahead, the Enlarged Group will endeavor to make more investment decisions with a prudent manner in order to broaden its forest asset base and bring additional earnings and long term value to the Enlarged Group. The Group currently has sufficient financial resources to support its daily operations.

1. ACCOUNTANTS' REPORT OF THE TARGET GROUP

The following is the text of an accountants' report in respect of the Target Group received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation into this circular.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

11 March 2011

The Board of Directors
Greenheart Group Limited
16th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wan Chai, Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Mega Harvest International Limited (the “Target Co”) and its subsidiaries (hereinafter collectively referred to as the “Target Group”) for the period from 12 July 2010 (date of incorporation) to 31 December 2010 (the “Relevant Period”), for inclusion in the shareholders’ circular of Greenheart Group Limited (the “Company”) dated 11 March 2011 (the “Circular”) in connection with the Company’s proposed acquisition (the “Acquisition”) of the entire issued share capital of the Target Co, pursuant to the sale and purchase agreement dated 7 January 2011 entered into between the Company, Sino-Capital Global Inc. (“Sino-Capital”) and Sino-Forest Corporation (“Sino-Forest”, the ultimate holding company of Sino-Capital and the Company). The financial information of the Target Group set out in Section I of this report comprises the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the Relevant Period, and a summary of significant accounting policies and other explanatory notes (collectively the “Financial Information”).

The Target Co was incorporated in the British Virgin Islands with limited liability on 12 July 2010. As at the date of this report, the Target Group was principally engaged in the business of commercial forestry in New Zealand. Particulars of the companies comprising the Target Group are set out in note 1 of Section I of this report.

All companies now comprising the Target Group have adopted 31 December as their financial year end date for statutory reporting and/or management reporting purposes. As at the date of this report, no audited financial statements have been prepared for the Target Co since its date of incorporation as the Target Co is not subject to any statutory audit requirement in its jurisdiction of incorporation. Other than management accounts of the Target Co, which were prepared in accordance with accounting principles generally accepted in Hong Kong, financial statements and/or management accounts of all other companies comprising the Target Group were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in New Zealand, and were not audited by us. For the purpose of the Acquisition, the directors of NZ Forestry Holding Company Limited. (“NZ Holdco”, the direct wholly-owned subsidiary of the Target Co) have prepared consolidated financial statements of NZ Holdco for the period from 8 October 2010 (date of incorporation of NZ Holdco) to 31 December 2010 based on International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (the “Special Purpose NZ Holdco IFRS Financial Statements”) which were audited by Ernst & Young, Chartered Accountants, Wellington of New Zealand, in accordance with International Standards on Auditing (New Zealand).

For the purpose of this report, the directors of the Target Co have prepared the Financial Information in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong, based on management accounts of the Target Co for the Relevant Period and the Special Purpose NZ Holdco IFRS Financial Statements, with no adjustments considered necessary to comply with HKFRSs. The directors of the Target Co are responsible for the preparation of the Financial Information in order to give a true and fair view. In preparing the Financial Information that gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable.

For the purpose of this report, we have carried out independent audit procedures on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA. It is our responsibility to form an independent opinion, based on our procedures, on the Financial Information and to report our opinion thereon.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the results and cash flows of the Target Group for the Relevant Period and of the state of affairs of the Target Group as at 31 December 2010.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION

Consolidated income statement

		Period from 12 July 2010 (date of incorporation) to 31 December 2010 US\$'000
	<i>Notes</i>	
REVENUE	6	41
Bank interest income		1
Fair value gain on plantation forest assets	11	3,025
Harvest costs		(34)
Depreciation	10	(34)
Other operating expenses		(294)
PROFIT FROM OPERATING ACTIVITIES	7	2,705
Finance costs	8	(372)
PROFIT BEFORE TAX		2,333
Income tax	9	(899)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE SOLE SHAREHOLDER OF THE TARGET CO		1,434

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Consolidated statement of comprehensive income

		Period from 12 July 2010 (date of incorporation) to 31 December 2010 US\$'000
	<i>Note</i>	
PROFIT FOR THE PERIOD		1,434
OTHER COMPREHENSIVE INCOME		
FOR THE PERIOD ATTRIBUTABLE TO THE SOLE SHAREHOLDER OF THE TARGET CO, NET OF INCOME TAX OF NIL		
– Fair value gain on forestry land	10	640
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO THE SOLE SHAREHOLDER OF THE TARGET CO		2,074

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Consolidated statement of financial position

		31 December 2010
	<i>Notes</i>	<i>US\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	10	13,129
Plantation forest assets	11	61,600
Total non-current assets		74,729
CURRENT ASSETS		
Inventories	12	471
Trade receivables	13	49
Prepayments, deposits and other receivables		610
Cash and bank balances	14	118
Total current assets		1,248
CURRENT LIABILITIES		
Trade payables	15	723
Other payables and accruals		36
Income tax payable		1,205
Loan from the ultimate holding company	16	50,848
Due to the ultimate holding company	16	371
Due to fellow subsidiaries	16	24
Total current liabilities		53,207
NET CURRENT LIABILITIES		(51,959)
TOTAL ASSETS LESS CURRENT LIABILITIES		22,770
NON-CURRENT LIABILITY		
Deferred tax liability	17	575
Net assets		22,195
EQUITY ATTRIBUTABLE TO THE SOLE SHAREHOLDER OF THE TARGET CO		
Issued capital	18	20,000
Reserves		2,195
		22,195

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Consolidated statement of changes in equity

	Attributable to the sole shareholder of the Target Co				
	Issued capital <i>US\$'000</i>	Capital reserve <i>US\$'000</i>	Forestry land revaluation reserve <i>US\$'000</i>	Retained profit <i>US\$'000</i>	Total equity <i>US\$'000</i>
At 12 July 2010 (date of incorporation)	–	–	–	–	–
Profit for the period	–	–	–	1,434	1,434
Other comprehensive income for the period:					
Fair value gain on forestry land	–	–	640	–	640
Total comprehensive income for the period	–	–	640	1,434	2,074
Deemed capital contribution from the ultimate holding company (note 16)	–	121	–	–	121
Issue of shares (note 18)	20,000	–	–	–	20,000
At 31 December 2010	20,000	121*	640*	1,434*	22,195

* These reserve accounts comprise the consolidated reserves of US\$2,195,000 in the consolidated statement of financial position as at 31 December 2010.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Consolidated statement of cash flows

		Period from 12 July 2010 (date of incorporation) to 31 December 2010 US\$'000
	<i>Notes</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		2,333
Adjustments for:		
Bank interest income		(1)
Finance costs	8	372
Depreciation		34
Fair value gain on plantation forest assets		(3,025)
		(287)
Increase in trade receivables		(49)
Increase in prepayments, deposits and other receivables		(528)
Increase in inventories		(471)
Decrease in trade payables		(1,528)
Increase in other payables and accruals		36
Increase in amounts due to fellow subsidiaries		24
Increase in amount due to the ultimate holding company		371
Cash used in operations		(2,432)
Interest received		1
Net cash flows used in operating activities		(2,431)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries	19	(43,925)
Pre-acquisition advance to a potential investee	18(c), 19	(4,269)
Net cash flows used in investing activities		(48,194)
CASH FLOWS FROM FINANCING ACTIVITY		
Loan from the ultimate holding company	16	50,597
Net cash flows from financing activity		50,597
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period		(28)
Effect of foreign exchange rate changes, net		146
CASH AND CASH EQUIVALENTS AT END OF PERIOD		118

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

1. CORPORATE INFORMATION

The Target Co was incorporated in the British Virgin Islands with limited liability on 12 July 2010. As at the date of this report, the registered office of the Target Co is located at OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

As at 31 December 2010, the immediate holding company of the Target Co is Sino-Capital, which is established in the British Virgin Islands with limited liability, and in the opinion of the directors of the Target Co, the ultimate holding company of the Target Co is Sino-Forest, which is established in Canada with limited liability.

During the Relevant Period, the Target Group was principally engaged in the business of commercial forestry in New Zealand.

Particulars of the companies comprising the Target Group, which all have characteristics substantially similar to those of a private company incorporated in Hong Kong, are as follows:

Company name	Date of incorporation	Place of incorporation	Paid-up capital/ nominal value of ordinary issued share capital	Percentage of equity interest attributable to the Target Co as at		Principal activities
				31 December 2010	Date of this report	
Parent:						
Mega Harvest International Limited	12 July 2010	British Virgin Islands	US\$20,000,001	N/A	N/A	Investment holding
Subsidiaries:						
NZ Forestry Holding Company Limited	8 October 2010	New Zealand	US\$10,000	100	100	Investment holding
MFV Limited (note)	10 November 2010	New Zealand	US\$33,909,776	100	100	Investment in commercial forestry and investment holding
Mangakahia Forest Land Limited	1 May 2009	New Zealand	NZ\$2,832,632	100	100	Forestry land holding and investment holding
Mangakahia Forest Maori Land Limited	26 May 2010	New Zealand	NZ\$1	100	100	Dormant

Note: MFV Limited was previously incorporated in the Cayman Islands with limited liability on 11 February 2002. During the year ended 31 December 2010, MFV Limited changed its country of registration to New Zealand and was registered under the Companies Act 1993 of New Zealand on 10 November 2010.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****2. BASIS OF PRESENTATION**

The Financial Information has been prepared under the going concern concept, notwithstanding that the Target Group had net current liabilities of approximately US\$51,959,000 as at 31 December 2010 because Sino-Forest, the ultimate holding company, has agreed to provide continual financial support to the Target Group as and when required; and it has undertaken not to demand for repayment of the amounts due by the Target Group until the Target Group is in the position to repay without impairing its liquidity and financial position.

3.1 BASIS OF PREPARATION

The Financial Information set out in this section has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information has been prepared under the historical cost convention except for plantation forest assets and forestry land which are measured at fair value less costs to sell and fair value, respectively, as further explained in note 3.3 of this section. The Financial Information is presented in United States dollars (“US\$”), which is also the functional currency of the Target Company, and all values are rounded to the nearest thousand except when otherwise indicated.

The Financial Information is the first set of the Target Co’s financial statements prepared in accordance with HKFRSs and the Target Co did not issue any financial statements previously.

Basis of consolidation

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ⁴
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ⁵
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

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

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

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 July 2011

⁵ Effective for annual periods beginning on or after 1 January 2012

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

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

Further information about those changes that are expected to be relevant to the Target Group is as follows:

- (a) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) (continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the “Additions”) and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (“FVO”). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (“OCI”). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Target Group expects to adopt HKFRS 9 from 1 January 2013.

- (b) HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Target Group expects to adopt HKAS 24 (Revised) from 1 January 2011. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Target Group is not government-related.

- (c) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The Target Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Target Group. Those amendments that are expected to have a significant impact on the Target Group’s policies are as follows:

- (i) **HKFRS 3 *Business Combinations*:** Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree’s identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- (ii) **HKAS 1 *Presentation of Financial Statements*:** Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (iii) **HKAS 27 *Consolidated and Separate Financial Statements*:** Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Subsidiaries**

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

Related parties

A party is considered to be related to the Target 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 Target Group; (ii) has an interest in the Target Group that gives it significant influence over the Target Group; or (iii) has joint control over the Target Group;
- (b) the party is a member of the key management personnel of the Target Group or its holding companies;
- (c) the party is a close member of the family of any individual referred to in (a) or (b); or
- (d) 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 (b) or (c).

Plantation forest assets

Plantation forest assets predominately consist of standing trees in a forest on which the Target Group undertakes agricultural activities to transform the standing trees into agricultural produce for sale. The forest establishment and maintenance expenses are charged to the income statement in the period in which they are incurred.

Plantation forest assets are stated at fair value less costs to sell at the end of each reporting period and the gain or loss arising from the changes in the fair value less costs to sell of the plantation forest assets is recognised in the income statement in the period in which it arises.

If an active market exists for standing trees with reference to the distribution of the forest area by age-class, land tenure, forest health, expected growth and yield of the tree crops are adopted for determining the fair value of these assets. If an active market does not exist, the Target Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values or as determined by independent professional valuers.

At the time the tree is harvested, the agricultural produce is measured at its fair value less costs to sell at the point of harvest. It is taken out of the plantation forest assets (non-current assets) and accounted for under inventories (current assets). Depletion of plantation forest assets is calculated based on the rate corresponding to the volume of standing trees actually harvested and the total estimated standing trees volume of the plantation forest assets.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment and depreciation***Forestry land*

Forestry land of the Target Group is freehold land, which is measured initially at cost, including transaction costs. Subsequent to initial recognition, forestry land is stated at fair value and is not depreciated.

Valuations are performed frequently enough to ensure that the fair value of the forestry land does not differ materially from its carrying amount. Changes in the values of the forestry land are dealt with as movements in the forestry land revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of the forestry land, the relevant portion of the forestry land revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Forestry land is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the forestry land is derecognised is the difference between the net sales proceeds and its then carrying amount.

Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of other 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 other property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of other property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Capital roading	3%
Equipment	5%

Where parts of an item of other 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 each financial year end.

An item of other property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than plantation forest assets, inventories and financial assets), 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 recognised 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 the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Loans and receivables*Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are all classified as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Target Group determines the classification of its financial assets at initial recognition. When loans and receivables are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target 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.

The Target Group's loans and receivables include cash and bank balances and trade and other receivables.

Subsequent measurement

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the income statement. The loss arising from impairment is recognised in the income statement.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Loans and receivables (continued)***Derecognition*

An item of loans and receivables (or, where applicable, a part of an item of loans and receivables or part of a group of similar loans and receivables) is derecognised when:

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

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Target Group’s continuing involvement in the asset. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

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 Target Group could be required to repay.

Impairment

The Target Group assesses at the end of each reporting period whether there is any objective evidence that an item of loans and receivables or a group of loans and receivables is impaired. An item of loans and receivables or a group of loans and receivables is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the item of loans and receivables or the group of loans and receivables that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables carried at amortised cost, the Target Group first assesses individually whether objective evidence of impairment exists for loans and receivables that are individually significant, or collectively for loans and receivables that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed item of loans and receivables, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition).

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Loans and receivables (continued)***Impairment (continued)*

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 realised or has been transferred to the Target Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in the income statement.

Loans and borrowings*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are all classified as loans and borrowings. The Target Group determines the classification of its financial liabilities at initial recognition. All loans and borrowings are recognised initially at fair value, less directly attributable transaction costs.

The Target Group's loans and borrowings include trade and other payables, and amounts due to the ultimate holding company and fellow subsidiaries.

Subsequent measurement

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition

An item of loans and borrowings is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing item of loans and borrowings 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 recognised in the income statement.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis.

In respect of timbers/felled trees harvested from the Target Group's plantation forest assets, their costs are measured on initial recognition at their fair value less costs to sell at the point of harvest. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to 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 which 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 Target Group's cash management.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Group operates.

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.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Income tax (continued)**

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs consist of interests and other costs that an entity incurs in connection with the borrowing of funds.

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 capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in United States dollars, which is the Target Co's functional and presentation currency. Each entity in the Target 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 recorded by the entities in the Target Group are initially recorded using their respective 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 the reporting period. All differences are taken to the income statement. 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.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign currencies (continued)**

The functional currency of certain subsidiaries is New Zealand dollars ("NZ\$"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Target Co at the exchange rate ruling at the end of the reporting period and their income statements are translated into United States dollars at the weighted average exchange rate for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of those subsidiaries which have New Zealand dollars being their functional currency are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the period are translated into United States dollars at the weighted average exchange rate for the period.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the Financial Information and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Fair value of forestry land and plantation forest assets

The Target Group's forestry land and plantation forest assets are stated at fair value and at fair value less costs to sell, respectively. In determining the fair value of the forestry land and the plantation forest assets, the professional valuers have applied the net present value approach which requires a number of key assumptions and estimates to be made such as discount rate, land cost, log price, harvest profile, plantation costs, growth, harvesting and establishment. Any change in the estimates may affect the fair value of the forestry land and the plantation forest assets significantly. The management reviews the assumptions and estimates periodically to identify any significant change in the fair value of the forestry land and the plantation forest assets. The carrying amounts of the Target Group's forestry land and plantation forest assets as at 31 December 2010 were US\$12,020,000 and US\$61,600,000, respectively. Further details of which are set out in notes 10 and 11 of this section.

5. OPERATING SEGMENT INFORMATION

No operating segment or geographical information is presented as the Target Group operated in one single operating segment during the Relevant Period and all of its assets and liabilities as at the end of the Relevant Period were located in New Zealand.

6. REVENUE

Revenue represents the aggregate of the invoiced value of goods sold, net of goods and services tax and after allowances for returns and trade discounts.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

7. PROFIT FROM OPERATING ACTIVITIES

The profit from operating activities of the Target Group for the Relevant Period is arrived at after charging net foreign exchange differences of US\$57,000.

8. FINANCE COSTS

Finance costs for the Relevant Period represented interest on a loan from the ultimate holding company.

9. INCOME TAX

	Period from 12 July 2010 (date of incorporation) to 31 December 2010 US\$'000
Current	324
Deferred (<i>note 17</i>)	575
Total tax charge for the period	899

New Zealand income tax has been provided in respect of the estimated assessable profits for the Relevant Period arising from the Target Group's operations in New Zealand, based on the existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the income tax rate generally applicable for enterprises established in New Zealand to the tax expense at the Target Group's effective income tax rate for the Relevant Period is as follows:

	Period from 12 July 2010 (date of incorporation) to 31 December 2010 US\$'000
Profit before tax	2,333
Tax at the applicable income tax rate of 30%	700
Income not subject to tax	(70)
Expenses not deductible for tax	314
Others	(45)
Tax expense at the Target Group's effective rate	899

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

10. PROPERTY, PLANT AND EQUIPMENT

	Forestry land US\$'000 (notes (a) and (b))	Capital roading US\$'000	Equipment US\$'000	Total US\$'000
Net carrying amount:				
At 12 July 2010 (date of incorporation)	–	–	–	–
Acquisition of subsidiaries (note 19)	11,380	1,131	12	12,523
Surplus on revaluation	640	–	–	640
Depreciation provided during the period	–	(34)	–	(34)
	<u>12,020</u>	<u>1,097</u>	<u>12</u>	<u>13,129</u>
At 31 December 2010	<u>12,020</u>	<u>1,097</u>	<u>12</u>	<u>13,129</u>
At 31 December 2010:				
Cost	–	1,131	16	1,147
Valuation	12,020	–	–	12,020
Accumulated depreciation	–	(34)	(4)	(38)
	<u>12,020</u>	<u>1,097</u>	<u>12</u>	<u>13,129</u>
Net carrying amount	<u>12,020</u>	<u>1,097</u>	<u>12</u>	<u>13,129</u>

Notes:

- (a) The forestry land represents freehold land in New Zealand. Forestry land is kind of property, plant and equipment under the definition of HKAS 16 *Property, Plant and Equipment*. The Target Group uses the revaluation model of HKAS 16 to account for the forestry land, which requires that revaluation should be performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The Target Group's forestry land was revalued on 31 December 2010 by Telfer Young (Northland) Ltd., independent professionally qualified valuers, with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the Target Group.

- (b) Had the forestry land been carried under the cost model, the carrying amount of the forestry land of the Target Group would have been approximately US\$11,380,000 as at 31 December 2010.

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

11. PLANTATION FOREST ASSETS

	<i>US\$'000</i>
At 12 July 2010 (date of incorporation)	–
Acquisition of subsidiaries (<i>note 19</i>)	58,721
Changes in fair value less costs to sell	3,025
Exchange realignment	(146)
At 31 December 2010	61,600

As at 31 December 2010, the Target Group owned intensively managed *Pinus radiata* plantation forest assets in Northland region of New Zealand (the “Mangakahia Forest”) for the purpose of generating revenue by harvesting timbers. The Mangakahia Forest’s freehold title land base totals 13,095 hectares, of which 10,990 hectares was net productive area. All the productive area was owned freehold, except 80 hectares which were held through a single rotation forestry right.

The Target Group’s plantation forest assets in New Zealand are regarded as biological assets which are measured at fair value less costs to sell at the end of the reporting period in accordance with HKAS 41 *Agriculture*. These assets were independently valued by Jones Lang Sallmanns Limited at 31 December 2010. In view of the non-availability of market value for tree plantation in New Zealand, the professional valuer has applied the net present value approach whereby projected future net cash flows, based on their assessments of current timber log prices, were discounted at the pre-tax discount rate of 11% for the plantation forest assets for 2010, to arrive at the fair value of the plantation forest assets.

The discount rate used in the valuation of the plantation forest assets in New Zealand as at 31 December 2010 was determined by reference to discount rates published by public entities and government agencies in New Zealand, weighted average cost of capital analysis, internal rate of return analysis, surveyed opinion of forest valuers practice and the implied discount rate of forest sales transactions mainly in New Zealand over a period of time, with more weight given to the implied discount rate.

12. INVENTORIES

The inventories of the Target Group as at 31 December 2010 represented harvested trees held for sale.

13. TRADE RECEIVABLES

The Target Group’s trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30-60 days. The Target Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. In the opinion of the directors of the Target Co, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

As at the end of the Relevant Period, all of the trade receivables of the Target Group were aged within six months of the invoice date and were neither past due nor impaired.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****14. CASH AND BANK BALANCES**

As at the end of the Relevant Period, the cash and bank balances of the Target Group were all denominated in New Zealand dollars.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default

15. TRADE PAYABLES

As at the end of the Relevant Period, all of the trade payables of the Target Group were aged within six months of invoice date.

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

16. BALANCES WITH THE ULTIMATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amounts due to the ultimate holding company and fellow subsidiaries as at 31 December 2010 are unsecured, interest-free and have no fixed terms of repayment.

The amortised cost of the loan from the ultimate holding company as at 31 December 2010 comprised the loan with an initial fair value of US\$50,476,000 and an accrued interest payable of US\$372,000. The loan, as amended by the supplementary agreement dated 30 December 2010, is unsecured, bears interest at the rate of 1.05% per annum and is wholly repayable in 2020. However, at the inception of the loan, the two parties had agreed to refinance the entire loan with a bank loan prior to 31 March 2011. Accordingly, in the opinion of the directors of the Target Co, the loan should be classified as a current liability in the consolidated statement of financial position as at 31 December 2010.

In addition, in the opinion of the directors of the Target Co, the interest rate charged on this loan is below the then market rate and hence, the benefit of the below-market interest rate of US\$121,000, representing the difference between the principal amount and the initial fair value of the loan, as estimated by reference to the present value of all future cash payments of this loan prior to 31 March 2011 discounted using the then prevailing market rate of interest for similar loans of LIBOR+3.5%, was accounted for as a deemed capital contribution from the ultimate holding company and recognised in the capital reserve at the inception of the loan.

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

17. DEFERRED TAX LIABILITY

	Deferred tax liability arising from revaluation of plantation forest assets US\$'000
At 12 July 2010 (date of incorporation)	–
Deferred tax charged to the income statement during the period (note 9)	575
At 31 December 2010	575

18. SHARE CAPITAL

	31 December 2010 US\$'000
Authorised: 50,000 ordinary shares of a single class with no par value	–
Issued and fully paid: 2 ordinary shares of no par value	20,000

A summary of the movements in the Target Co's issued share capital during the Relevant Period is as follows:

	Number of shares in issue			Issued capital US\$'000
	With par value of US\$1	With no par value	Total	
At 12 July 2010 (date of incorporation) (note (a))	1	–	1	–
Replacement/(cancellation) during the period (note (b))	(1)	1	–	–
Share issued during the period (note (c))	–	1	1	20,000
At 31 December 2010	–	2	2	20,000

APPENDIX II FINANCIAL INFORMATION OF THE TARGET GROUP

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

18. SHARE CAPITAL (continued)

Notes:

- (a) The Target Co was incorporated on 12 July 2010 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1 each, of which one share was issued on the same date to provide the initial working capital to the Target Co.
- (b) On 29 October 2010, pursuant to the written resolutions of the directors of the Target Co, authorised share capital of US\$50,000 dividend into 50,000 ordinary shares of US\$1 was converted into a single class with no par value. Accordingly, the then existing ordinary share with par value of US\$1 was cancelled and one ordinary share with no par value was issued for replacement. The reason for the change from par value to no par value shares was to comply with the capital structure of the ultimate holding company.
- (c) On 1 November 2010, pursuant to the written resolutions of the directors of the Target Co, 1 ordinary share of the Target Co of no par value was issued to the then sole shareholder for a total consideration of US\$20,000,000, satisfied by the capitalisation of an amount due to the then sole shareholder.

19. ACQUISITION OF SUBSIDIARIES

During the Relevant Period, NZ Holdco, a wholly-owned subsidiary of the Target Co, acquired a 100% equity interest in MFV Limited from an independent third party at a total cash consideration of US\$44,039,000 pursuant to a sale and purchase agreement dated 24 August 2010 entered into between, inter alia, the Target Co. and the independent third party. The consideration was fully settled during the Relevant Period and the acquisition was completed in October 2010. Following the completion of this transaction, MFV Limited and its subsidiaries (collectively the "MFVL Group") have become wholly-owned subsidiaries of the Target Co.

The MFVL Group owns the forestry land and the plantation forest assets of the Mangakahia Forest (as defined in note 11 of this section), but at the time of the acquisition, the MFVL Group did not have any employees and had not actively engaged in commercial forestry business for some time. Accordingly, in the opinion of the directors of the Target Co, the acquisition of the MFVL Group does not constitute a business combination but an acquisition of assets and liabilities.

The carrying amounts of the identifiable assets and liabilities of the MFVL Group as at the date of acquisition were as follows:

	<i>Notes</i>	<i>US\$'000</i>
Net assets acquired:		
Property, plant and equipment	10	12,523
Plantation forest assets	11	58,721
Trade and other receivables		82
Cash and bank balances		114
Trade and other payables		(2,251)
Income tax payable		(881)
		<u>68,308</u>
Satisfied by:		
Cash		44,039
Reclassification from other receivable to interests in subsidiaries		24,269
		<u>68,308</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

Cash and bank balances acquired	114
Cash consideration paid for the acquisition	(44,039)
	<u>(43,925)</u>

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

20. RELATED PARTY DISCLOSURES

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the Target Group had the following transaction with a related party during the Relevant Period:

**Period from
12 July 2010 (date
of incorporation)
to 31 December
2010
US\$'000**

Interest expense on a loan from the ultimate holding company	372
--	-----

Details of the terms of the loan from the ultimate holding company are set out in note 16 of this section.

- (b) **Outstanding balances with related parties**

Other than the balances with the ultimate holding company and fellow subsidiaries as disclosed in note 16 of this section, the Target Group did not have other outstanding balances with related parties as at the end of the Relevant Period.

- (c) **Compensation of key management personnel of the Target Group**

In the opinion of the directors of the Target Co, the directors of the Target Co and MFV Limited represent the key management personnel of the Target Group. During the Relevant Period, no compensation was paid to the key management personnel.

21. FINANCIAL INSTRUMENTS BY CATEGORY

The financial assets and financial liabilities of the Target Group as at 31 December 2010 are loans and receivables and financial liabilities stated at amortised cost, respectively.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise cash and bank balances, trade and other receivables, trade and other payables and amounts due to the ultimate holding company and fellow subsidiaries.

Risk exposures and responses

The Target Group manages its exposure to key financial risks, including interest rate and currency risks in accordance with the Target Group's financial risk management policy. The objective of the policy is to support the delivery of the Target Group's financial targets while protecting future financial security.

The main risks arising from the Target Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Target Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Risk exposures and responses (continued)**

Primary responsibility for identification and control of financial risk management is carried out by the directors of the Target Co. Management reviews and agrees policies for managing each of the risks identified below:

(i) Interest rate risk

At the end of the Relevant Period, the Target Group had cash and bank balances that were exposed to variable interest rates.

The Target Group's loan from the ultimate holding company at 31 December 2010 has a fixed interest rate and is carried at amortised cost, so the Target Group is not exposed to interest rate risk in respect of this debt.

(ii) Foreign currency risk

The Target Group has transactional currency exposures. Such exposure arises from sales or purchases by the Target Group in currencies other than the functional currency. The Target Group has exposure to foreign currency denominated financial instruments at the end of the Relevant Period through its investment in working capital, namely cash and bank balances, trade and other receivables and trade and other payables, which are mostly denominated in New Zealand dollars. The net exposure to New Zealand dollar working capital is not significant, however and consequently, the Target Group does not actively hedge this exposure.

The Target Group also has exposure to foreign currency risk through the translation of operations that are not denominated in the functional currency.

(iii) Credit risk

Credit risk arises from the financial assets of the Target Group, which comprise cash and bank balances and trade and other receivables. The Target Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of the financial assets reported in the statement of financial position. The Target Group does not hold any credit derivatives to offset its credit exposure.

The Target Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Target Group's policy to securitise its trade and other receivables.

Receivable balances are monitored on an ongoing basis with the result that the Target Group's experience of bad debts has not been significant.

I. FINANCIAL INFORMATION (continued)

Notes to Financial Information

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk exposures and responses (continued)

(iv) *Liquidity risk*

The Target Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Target Group finances its working capital and capital expenditure requirements through a combination of funds generated from operations and, when necessary, advances from holding companies.

In the opinion of the directors of the Target Co, the Target Group’s exposure to liquidity risk is minimal as Sino-Forest, the ultimate holding company, has agreed to provide continual financial support to the Target Group as and when required; and it has undertaken not to demand for repayment of the amounts due by the Target Group until the Target Group is in the position to repay without impairing its liquidity and financial position. Further details of which are set out in note 2 of this section.

The maturity profile of the Target Group’s financial liabilities as at the end of the Relevant Period, based on the contractual undiscounted payments, is as follows:

	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables	–	723	–	–	–	723
Other payables	–	36	–	–	–	36
Loan from the ultimate holding company	–	50,848	–	–	–	50,848
Due to the ultimate holding company	371	–	–	–	–	371
Due to fellow subsidiaries	24	–	–	–	–	24
	<u>395</u>	<u>51,607</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>52,002</u>

Capital management

The primary objective of the Target Group’s capital management is to safeguard its ability to continue as a going concern. The Target Group does not have specific policies for managing capital but it will continue to utilise funding from its sole shareholder to maintain a healthy capital ratio.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group have been prepared in respect of any period subsequent to 31 December 2010.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis on the performance of the Target Group during the period from 12 July 2010 (date of incorporation of Target Co) to 31 December 2010.

Business Review

Target Co is an investment holding company incorporated in British Virgin Islands with limited liability on 12 July 2010 for the sole purpose as the holding company of the MFVL Group. On 22 October 2010, Target Co completed the acquisition of the entire interest of MFVL Group pursuant to the NZ SPA. During the period ended 31 December 2010, the Target Group recorded revenue of approximately US\$41,000 mainly derived from the sales of logs from the Mangakahia Forest.

The profit attributable to the sole shareholder of the Target Co during the period ended 31 December 2010 amounted to US\$1,434,000 which was mainly derived from the changes in fair value of plantation forest assets upon initial acquisition of the MFVL Group.

Liquidity and financial resources

As at 31 December 2010, the Target Group maintained cash and bank balances of approximately US\$118,000 with the Shareholder's Loan bears at fixed interest rate of approximately US\$50,848,000 outstanding. Approximately US\$40,000,000 of the Shareholder's Loan will be refinanced by the Term Loan Facility or the Guarantee Term Loan Facility (as the case may be) immediately prior to the Completion. The remaining balance of the Shareholder's Loan will be assigned to the Company upon Completion. The Target Group's current assets and current liabilities as at 31 December 2010 were US\$1,248,000 and US\$53,207,000, respectively. Other than the Shareholder's Loan, the Target Group had no other bank and other borrowings as at 31 December 2010.

Capital structure

The capital structure of the Target Group was composed of equity and debt; the Target Group generally financed its operations from capital contributions by its shareholders.

Capital commitment

As at 31 December 2010, the Target Group had no significant capital commitment.

Significant investments

Save as its investment in the MFVL Group, there was no significant investment held by the Target Group during the period.

Acquisition/disposal of subsidiary

Save as the acquisition of the MFVL Group, the Target Group had no acquisition or disposal of subsidiary or associated company during the period ended 31 December 2010.

Analysis of segmental information

No segment information was presented as the Target Group operated in one single operating segment during the period ended 31 December 2010.

Employees and staff policy

The Target Group has engaged an experienced forest management company in New Zealand to provide all forestry operations and managements services required for the Mangakahia Forest and therefore no staff was employed during the period ended 31 December 2010.

Charges on the assets

As at 31 December 2010, no assets of the Target Group were pledged.

Future plans for material investments or capital assets

As at 31 December 2010, the Target Group had no plans for material investments or capital assets.

Foreign exchange exposure

The Target Group had exposure to foreign currency risk as some of the Target Group's sales and operating expenses are denominated in New Zealand Dollars other than United States Dollars, the functional and presentation currency of the Target Group. However, the net exposure to New Zealand dollar working capital is not significant and consequently, the Target Group did not have a foreign currency hedging policy in respect of foreign currency exposure during the period ended 31 December 2010.

Contingent liabilities

As at 31 December 2010, the Target Group had no significant contingent liabilities.

1. ACCOUNTANTS' REPORT OF THE MFVL GROUP

The following is the text of an accountants' report in respect of the MFVL Group received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation into this circular.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

11 March 2011

The Board of Directors
Greenheart Group Limited
16th Floor
Dah Sing Financial Centre
108 Gloucester Road
Wan Chai, Hong Kong

Dear Sirs,

We set out below our report on the Financial Information relating to MFV Limited (formerly known as GFP Mangakahia Forest Venture Limited) and its subsidiaries (hereinafter collectively referred to as the “MFVL Group”) for each of the years ended 31 December 2008, 2009 and 2010 (the “Relevant Periods”), for inclusion in the shareholders’ circular of Greenheart Group Limited (the “Company”) dated 11 March 2011 (the “Circular”) in connection with the Company’s proposed acquisition (the “Acquisition”) of the entire issued share capital of Mega Harvest International Limited (the “Target Co”), pursuant to the sale and purchase agreement dated 7 January 2011 entered into between the Company, Sino-Capital Global Inc. (“Sino-Capital”) and Sino-Forest Corporation (“Sino-Forest”, the ultimate holding company of Sino-Capital and the Company). The Financial Information of the MFVL Group set out in Section I of this report comprises the consolidated statements of financial position as at 31 December 2008, 2009 and 2010, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the Relevant Periods, and a summary of significant accounting policies and other explanatory notes (collectively the “Financial Information”).

MFV Limited was previously incorporated in the Cayman Islands with limited liability under the name of GFP Mangakahia Forest Venture Limited on 11 February 2002. During the year ended 31 December 2010, MFV Limited changed its country of registration to New Zealand and was registered under the Companies Act 1993 of New Zealand on 10 November 2010. As at the date of this report, the MFVL Group was principally engaged in the business of commercial forestry in New Zealand. Particulars of the companies comprising the MFVL Group are set out in note 1 of Section I of this report.

All companies now comprising the MFVL Group have adopted 31 December as their financial year end date for statutory reporting and/or management reporting purposes. For those with statutory reporting requirements, the statutory financial statements for each of the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in New Zealand, and were not audited by us. For the purpose of the Acquisition, MFV Limited also prepared consolidated financial statements for each of the Relevant Periods based on International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board (the “Special Purpose IFRS Financial Statements”) which were audited by Ernst & Young, Chartered Accountants, Wellington of New Zealand, in accordance with International Standards on Auditing (New Zealand).

For the purpose of this report, the directors of MFV Limited have prepared the Financial Information in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and accounting principles generally accepted in Hong Kong, based on the Special Purpose IFRS Financial Statements, with no adjustments considered necessary to comply with HKFRSs. The directors of MFV Limited are responsible for the preparation of the Financial Information in order to give a true and fair view. In preparing the Financial Information that gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, and that judgements and estimates made are prudent and reasonable.

For the purpose of this report, we have carried out independent audit procedures on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA. It is our responsibility to form an independent opinion, based on our procedures, on the Financial Information and to report our opinion thereon.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the results and cash flows of the MFVL Group for each of the Relevant Periods and of the state of affairs of the MFVL Group as at 31 December 2008, 2009 and 2010.

I. FINANCIAL INFORMATION**Consolidated income statements**

	<i>Notes</i>	Year ended 31 December		
		2008	2009	2010
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
REVENUE	6	11,827	8,765	997
Other income	6	180	10	13
Fair value gain/(loss) on forestry land	11	–	(2,020)	2,020
Fair value gain/(loss) on plantation forest assets	12	(14,607)	11,549	13,346
Forest depletion cost as a result of harvesting		(6,501)	(1,920)	(25)
Harvest costs		(2,189)	(2,503)	(57)
Transportation costs		(1,264)	(1,382)	(246)
Exporting costs		(2,117)	(3,408)	(54)
Depreciation	11	(1)	(3)	(34)
Other operating expenses		(1,770)	(1,774)	(2,550)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	7	(16,442)	7,314	13,410
Finance costs	8	(3,085)	(2,232)	(2,070)
PROFIT/(LOSS) BEFORE TAX		(19,527)	5,082	11,340
Income tax	9	7,200	(1,847)	(2,403)
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO THE SOLE SHAREHOLDER OF MFV LIMITED		(12,327)	3,235	8,937

Details of the dividends declared during the Relevant Periods are disclosed in note 10 of this section.

I. FINANCIAL INFORMATION (continued)**Consolidated statements of comprehensive income**

	<i>Note</i>	Year ended 31 December		
		2008	2009	2010
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
PROFIT/(LOSS) FOR THE YEAR		(12,327)	3,235	8,937
OTHER COMPREHENSIVE INCOME/(LOSS)				
Fair value gain/(loss) on forestry land	11	–	(899)	1,250
Exchange differences on translation of foreign operations		(171)	327	(55)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS OF MFV LIMITED, NET OF INCOME TAX OF NIL		(171)	(572)	1,195
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO THE SOLE SHAREHOLDER OF MFV LIMITED		(12,498)	2,663	10,132

I. FINANCIAL INFORMATION (continued)**Consolidated statements of financial position**

		31 December		
	<i>Notes</i>	2008	2009	2010
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	11	12,349	9,881	13,129
Plantation forest assets	12	38,220	48,253	61,600
Total non-current assets		50,569	58,134	74,729
CURRENT ASSETS				
Inventories	14	–	277	471
Trade receivables	15	811	401	49
Prepayments, deposits and other receivables		619	387	610
Cash and bank balances	16	640	730	118
Total current assets		2,070	1,795	1,248
CURRENT LIABILITIES				
Trade payables	17	692	871	645
Other payables and accruals		51	10	–
Income tax payable		–	–	1,033
Loan from the immediate holding company	18	–	–	26,874
Due to the immediate holding company	18	–	–	367
Total current liabilities		743	881	28,919
NET CURRENT ASSETS/(LIABILITIES)		1,327	914	(27,671)
TOTAL ASSETS LESS CURRENT LIABILITIES		51,896	59,048	47,058
NON-CURRENT LIABILITIES				
Subordinated zero-coupon notes	19	22,323	24,555	–
Deferred tax liabilities	20	2,991	4,838	6,208
Total non-current liabilities		25,314	29,393	6,208
Net assets		26,582	29,655	40,850
EQUITY ATTRIBUTABLE TO THE SOLE SHAREHOLDER OF MFV LIMITED				
Issued capital	21	–	–	–
Reserves		26,582	29,655	40,850
		26,582	29,655	40,850

I. FINANCIAL INFORMATION (continued)

Consolidated statements of changes in equity

		Attributable to the sole shareholder of MFV Limited					
	Notes	Issued capital US\$'000	Share premium account US\$'000	Forestry land revaluation reserve US\$'000	Exchange fluctuation reserve US\$'000	Retained profits/(accumulated losses) US\$'000	Total equity US\$'000
At 1 January 2008		–	16,750	899	72	8,759	26,480
Loss for the year		–	–	–	–	(12,327)	(12,327)
Other comprehensive loss for the year:							
Exchange differences on translation of foreign operations		–	–	–	(171)	–	(171)
Total comprehensive loss for the year		–	–	–	(171)	(12,327)	(12,498)
Issue of new shares	21(b)	–	15,150	–	–	–	15,150
Interim 2008 dividends	10	–	–	–	–	(2,550)	(2,550)
At 31 December 2008 and 1 January 2009		–	31,900*	899*	(99)*	(6,118)*	26,582
Profit for the year		–	–	–	–	3,235	3,235
Other comprehensive income/(loss) for the year:							
Fair value loss on forestry land		–	–	(899)	–	–	(899)
Exchange differences on translation of foreign operations		–	–	–	327	–	327
Total comprehensive income/(loss) for the year		–	–	(899)	327	3,235	2,663
Issue of new shares	21(c)	–	410	–	–	–	410
At 31 December 2009 and 1 January 2010		–	32,310*	–*	228*	(2,883)*	29,655
Profit for the year		–	–	–	–	8,937	8,937
Other comprehensive gain/(loss) for the year:							
Fair value gain on forestry land		–	–	1,250	–	–	1,250
Exchange differences on translation of foreign operations		–	–	–	(55)	–	(55)
Total comprehensive income/(loss) for the year		–	–	1,250	(55)	8,937	10,132
Issue of new shares	21(d)	–	1,600	–	–	–	1,600
Interim 2010 dividend	10	–	–	–	–	(537)	(537)
At 31 December 2010		–	33,910*	1,250*	173*	5,517*	40,850

* These reserve accounts comprise the consolidated reserves of US\$26,582,000, US\$29,655,000 and US\$40,850,000 in the consolidated statements of financial position as at 31 December 2008, 2009 and 2010, respectively.

I. FINANCIAL INFORMATION (continued)**Consolidated statements of cash flows**

	<i>Notes</i>	Year ended 31 December		
		2008	2009	2010
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before tax		(19,527)	5,082	11,340
Adjustments for:				
Bank interest income	6	(33)	(10)	(13)
Finance costs	8	3,085	2,232	2,070
Depreciation		1	3	34
Fair value loss/(gain) on forestry land		–	2,020	(2,020)
Fair value loss/(gain) on plantation forest assets		14,607	(11,549)	(13,346)
Forest depletion cost as a result of harvesting		6,501	1,920	25
		4,634	(302)	(1,910)
Increase in inventories		–	(277)	(177)
Decrease/(increase) in trade receivables		(494)	410	352
Increase in prepayments, deposits and other receivables		(168)	232	(223)
Increase/(decrease) in trade payables		(42)	179	(226)
Increase/(decrease) in other payables and accruals		40	(41)	(10)
Increase in amount due to the immediate holding company		–	–	367
Cash generated from/(used in) operations		3,970	201	(1,827)
Interest received		33	10	13
Interest paid		(1,056)	–	(249)
Net cash flows from/(used in) operating activities		2,947	211	(2,063)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(188)	(454)	(12)
Capital expenditure on plantation forest assets		(328)	(124)	–
Net cash flows used in investing activities		(516)	(578)	(12)

I. FINANCIAL INFORMATION (continued)**Consolidated statements of cash flows (continued)**

	<i>Notes</i>	Year ended 31 December		
		2008	2009	2010
		<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
CASH FLOWS FROM FINANCING				
ACTIVITIES				
Advances from the immediate holding company		–	410	1,600
Repayment of subordinated zero-coupon notes		–	–	(26,376)
Loan from the immediate holding company		–	–	26,874
Interim dividends paid	10	(2,550)	–	(537)
Net cash flows from/(used in) financing activities		(2,550)	410	1,561
NET INCREASE/(DECREASE) IN CASH				
AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of year		930	640	730
Effect of foreign exchange rate changes, net		(171)	47	(98)
CASH AND CASH EQUIVALENTS				
AT END OF YEAR				
		640	730	118

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****1. CORPORATE INFORMATION**

MFV Limited was previously incorporated in the Cayman Islands with limited liability on 11 February 2002. During the year ended 31 December 2010, MFV Limited changed its country of registration to New Zealand and was registered under the Companies Act 1993 of New Zealand on 10 November 2010. As at the date of this report, the registered office of MFV Limited is located at C/- Chapman Tripp, Level 35, 23 Albert Street, Auckland, 1010, New Zealand.

As at 31 December 2010, the immediate holding company of MFV Limited is NZ Forestry Holding Company Limited ("NZ Holdco"), which is established in New Zealand with limited liability; and in the opinion of the directors of MFV Limited, the ultimate holding company of MFV Limited is Sino-Forest, which is established in Canada with limited liability.

During the Relevant Periods, the MFVL Group was principally engaged in the business of commercial forestry in New Zealand.

Particulars of the companies comprising the MFVL Group and its jointly-controlled entities, which all have characteristics substantially similar to those of a private company incorporated in Hong Kong, are as follows:

Company name	Date of incorporation	Place of incorporation	Paid-up capital/ nominal value of issued share capital	Percentage of equity interest attributable to MFV Limited as at			Date of this report	Principal activities
				2008	31 December 2009	2010		
Parent:								
MFV Limited (note (i))	10 November 2010	New Zealand	US\$33,909,776	N/A	N/A	N/A	N/A	Investment in commercial forestry and investment holding
Subsidiaries:								
Mangakahia Forest Land Limited (note (ii))	1 May 2009	New Zealand	NZ\$2,832,632	N/A	100	100	100	Forestry land holding and investment holding
Mangakahia Forest Maori Land Limited (note iii)	26 May 2010	New Zealand	NZ\$1	N/A	N/A	100	100	Dormant
Jointly-controlled entities:								
Mangakahia Forest Limited (note iv)	9 June 1978	New Zealand	NZ\$5,665,264	50	50	N/A	N/A	Commercial forestry and forestry land holding
Mangakahia Forest Management Limited (note iv)	6 April 1983	New Zealand	NZ\$1,000	50	50	N/A	N/A	Administration of forestry operations

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****1. CORPORATE INFORMATION (continued)***Notes:*

- (i) MFV Limited was previously incorporated in the Cayman Islands on 11 February 2002. On 10 November 2010, MFV Limited changed its country of registration to New Zealand and was registered under the Companies Act 1993 of New Zealand.

The statutory financial statements of MFV Limited for each of the years ended 31 December 2008 and 2009 were audited by Ernst & Young, Chartered Accountants, Wellington of New Zealand. As at the date of this report, the audited statutory financial statements of MFV Limited for the year ended 31 December 2010 have not been issued.

- (ii) The statutory financial statements of Mangakahia Forest Land Limited for the period ended 31 December 2009 were audited by Ernst & Young, Chartered Accountants, Wellington of New Zealand. As at the date of this report, the audited statutory financial statements of this company for the year ended 31 December 2010 have not been issued.
- (iii) As at the date of this report, the audited statutory financial statements of this company for the period ended 31 December 2010 have not been issued.
- (iv) The respective statutory financial statements of these companies for the years ended 31 December 2008 and 2009 were audited by Ernst & Young, Chartered Accountants, Auckland of New Zealand. These two jointly-controlled entities were dissolved during the year ended 31 December 2010, as further detailed in note 13 of this section.

2. BASIS OF PRESENTATION

The Financial Information has been prepared under the going concern concept, notwithstanding that the MFVL Group had net current liabilities of approximately US\$27.7 million as at 31 December 2010 because Sino-Forest, the ultimate holding company, has agreed to provide continual financial support to the MFVL Group as and when required; and NZ Holdco, the immediate holding company, has undertaken not to demand for repayment of the amounts due by the MFVL Group until the MFVL Group is in the position to repay without impairing its liquidity and financial position.

3.1 BASIS OF PREPARATION

The Financial Information set out in this section has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. The Financial Information has been prepared under the historical cost convention except for plantation forest assets and forestry land which are measured at fair value less costs to sell and at fair value, respectively, as further explained in note 3.3 of this section. The Financial Information is presented in United States dollars (“US\$”), which is also the functional currency of MFV Limited, and all values are rounded to the nearest thousand except when otherwise indicated.

The Financial Information is the first set of MFV Limited’s financial statements prepared in accordance with HKFRSs. Accordingly, HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* has been applied in preparing the Financial Information. Since the Special Purpose IFRS Financial Statements, on which the preparation of the Financial Information was based, were prepared in accordance with IFRSs which, in the opinion of the directors of MFV Limited, have no significant differences from HKFRSs in respect of the transactions carried out by the MFVL Group. Accordingly, disclosures as required by HKFRS 1 are not made in the Financial Information.

For the purposes of preparing and presenting the Financial Information for the Relevant Periods, the MFVL Group has consistently applied all of the new and revised HKASs, HKFRSs, amendments and the related interpretations which are effective for the Relevant Periods.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.1 BASIS OF PREPARATION (continued)****Basis of consolidation**

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the MFVL Group obtains control, and continue to be consolidated until the date that such control ceases. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the MFVL Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The MFVL Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The MFVL Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ²
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ⁴
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ⁴
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ⁵
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ³
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ³
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ²

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

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

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 July 2011

⁵ Effective for annual periods beginning on or after 1 January 2012

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

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

Further information about those changes that are expected to be relevant to the MFVL Group is as follows:

- (a) HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The MFVL Group expects to adopt HKFRS 9 from 1 January 2013.

- (b) HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The MFVL Group expects to adopt HKAS 24 (Revised) from 1 January 2011. While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the MFVL Group is not government-related.
- (c) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. The MFVL Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the MFVL Group. Those amendments that are expected to have a significant impact on the MFVL Group's policies are as follows:
- (i) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)**

(c) (continued)

- (ii) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.
- (iii) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Subsidiaries**

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

Interests in joint ventures*Joint ventures*

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Jointly-controlled assets

A jointly-controlled asset involves joint control and offers joint ownership by the MFVL Group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity.

The MFVL Group accounts for its share of the jointly-controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture and any expenses it incurs in relation to its interest in the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a corporation, partnership or other entity in which each venturer holds an interest. A jointly-controlled entity operates in the same way as other entities, except that a contractual arrangement establishes joint control. A jointly-controlled entity controls the assets of the joint venture, earns its own income and incurs its own liabilities and expenses.

The MFVL Group's investments in jointly-controlled entities are accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the Financial Information on a line-by-line basis. Unrealised gains and losses resulting from transactions between the MFVL Group and its jointly-controlled entities are eliminated to the extent of the MFVL Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Related parties**

A party is considered to be related to the MFVL 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 MFVL Group; (ii) has an interest in the MFVL Group that gives it significant influence over the MFVL Group; or (iii) has joint control over the MFVL Group;
- (b) the party is a jointly-controlled entity;
- (c) the party is a member of the key management personnel of the MFVL Group or its holding companies;
- (d) the party is a close member of the family of any individual referred to in (a) or (c); or
- (e) 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 (c) or (d).

Plantation forest assets

Plantation forest assets predominately consist of standing trees in a forest on which the MFVL Group undertakes agricultural activities to transform the standing trees into agricultural produce for sale. The forest establishment and maintenance expenses are charged to the income statement in the period in which they are incurred.

Plantation forest assets are stated at fair value less costs to sell at the end of each reporting period and the gain or loss arising from the changes in the fair value less costs to sell of the plantation forest assets is recognised in the income statement in the period in which it arises.

If an active market exists for standing trees with reference to the distribution of the forest area by age-class, land tenure, forest health, expected growth and yield of the tree crops are adopted for determining the fair value of these assets. If an active market does not exist, the MFVL Group uses the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the transaction date and the end of reporting period, or the market prices for similar assets adjusted to reflect differences to determine fair values or as determined by independent professional valuers.

At the time the tree is harvested, the agricultural produce is measured at its fair value less costs to sell at the point of harvest. It is taken out of the plantation forest assets (non-current assets) and accounted for under inventories (current assets). Depletion of plantation forest assets is calculated based on the rate corresponding to the volume of standing trees actually harvested and the total estimated standing trees volume of the plantation forest assets.

Property, plant and equipment and depreciation*Forestry land*

Forestry land of the MFVL Group is freehold land, which is measured initially at cost, including transaction costs. Subsequent to initial recognition, forestry land is stated at fair value and is not depreciated.

Valuations are performed frequently enough to ensure that the fair value of the forestry land does not differ materially from its carrying amount. Changes in the values of the forestry land are dealt with as movements in the forestry land revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of the forestry land, the relevant portion of the forestry land revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Forestry land is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the forestry land is derecognised is the difference between the net sales proceeds and its then carrying amount.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment and depreciation (continued)***Other property, plant and equipment*

Other property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of other 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 other property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of other property, plant and equipment are required to be replaced at intervals, the MFVL Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Capital roading	3%
Equipment	5%

Where parts of an item of other 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 each financial year end.

An item of other property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than plantation forest assets, inventories and financial assets), 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 recognised 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 the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised 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) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Loans and receivables***Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are all classified as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The MFVL Group determines the classification of its financial assets at initial recognition. When loans and receivables are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the MFVL 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.

The MFVL Group's loans and receivables include cash and bank balances and trade and other receivables.

Subsequent measurement

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in the income statement. The loss arising from impairment is recognised in the income statement.

Derecognition

An item of loans and receivables (or, where applicable, a part of an item of loans and receivables or part of a group of similar loans and receivables) is derecognised when:

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

When the MFVL Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the MFVL Group's continuing involvement in the asset. In that case, the MFVL Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the MFVL Group has retained.

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 MFVL Group could be required to repay.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Loans and receivables (continued)***Impairment*

The MFVL Group assesses at the end of each reporting period whether there is any objective evidence that an item of loans and receivables or a group of loans and receivables is impaired. An item of loans and receivables or a group of loans and receivables is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the item of loans and receivables or the group of loans and receivables that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables carried at amortised cost, the MFVL Group first assesses individually whether objective evidence of impairment exists for loans and receivables that are individually significant, or collectively for loans and receivables that are not individually significant. If the MFVL Group determines that no objective evidence of impairment exists for an individually assessed item of loans and receivables, whether significant or not, it includes the asset in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 realised or has been transferred to the MFVL Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other operating expenses in the income statement.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Loans and borrowings***Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are all classified as loans and borrowings. The MFVL Group determines the classification of its financial liabilities at initial recognition. All loans and borrowings are recognised initially at fair value, less directly attributable transaction costs.

The MFVL Group's loans and borrowings include trade and other payables, amounts due to the immediate holding company and subordinated zero-coupon notes.

Subsequent measurement

After initial recognition, loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition

An item of loans and borrowings is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing item of loans and borrowings 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 recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in-first-out basis.

In respect of timbers/felled trees harvested from the MFVL Group's plantation forest assets, their costs are measured on initial recognition at their fair value less costs to sell at the point of harvest. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to 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 which 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 MFVL Group's cash management.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the MFVL Group operates.

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.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the MFVL Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs consist of redemption premium, interest and other costs that an entity incurs in connection with the borrowing of funds.

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 capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in United States dollars, which is MFV Limited's functional and presentation currency. Each entity in the MFVL 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 recorded by the entities in the MFVL Group are initially recorded using their respective 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 the reporting period. All differences are taken to the income statement. 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 currency of certain subsidiaries and jointly-controlled entities is New Zealand dollars ("NZ\$"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of MFV Limited at the exchange rate ruling at the end of the reporting period and their income statements are translated into United States dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of those subsidiaries and jointly-controlled entities which have the New Zealand dollars being their functional currency are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries and jointly-controlled entities which arise throughout the year are translated into United States dollars at the weighted average exchange rate for the year.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the sole shareholder in a general meeting. When these dividends have been approved by the sole shareholder and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, and consequently, they are recognised immediately as a liability when they are proposed and declared.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the Financial Information and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Fair value of forestry land and plantation forest assets

The MFVL Group's forestry land and plantation forest assets are stated at fair value and at fair value less costs to sell, respectively. In determining the fair value of the forestry land and the plantation forest assets, the professional valuers have applied the net present value approach which requires a number of key assumptions and estimates to be made such as discount rate, land cost, log price, harvest profile, plantation costs, growth, harvesting and establishment. Any change in the estimates may affect the fair value of the forestry land and the plantation forest assets significantly. The management reviews the assumptions and estimates periodically to identify any significant change in the fair value of the forestry land and the plantation forest assets. The carrying amounts of the MFVL Group's forestry land and plantation forest assets as at 31 December 2010 were US\$12,020,000 and US\$61,600,000, respectively. Further details of which are set out in notes 11 and 12 of this section.

5. OPERATING SEGMENT INFORMATION

No operating segment or geographical information is presented as the MFVL Group operated in one single operating segment during the Relevant Periods and all of its assets and liabilities as at the end of each of the Relevant Periods were located in New Zealand.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****6. REVENUE AND OTHER INCOME**

Revenue represents the aggregate of the invoiced value of goods sold, net of goods and services tax and after allowances for returns and trade discounts.

An analysis of other income for each of the Relevant Periods is as follows:

	Year ended 31 December		
	2008	2009	2010
	US\$'000	US\$'000	US\$'000
Bank interest income	33	10	13
Others	147	–	–
	<u>180</u>	<u>10</u>	<u>13</u>

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The profit/(loss) from operating activities of the MFVL Group is arrived at after charging/(crediting):

	Year ended 31 December		
	2008	2009	2010
	US\$'000	US\$'000	US\$'000
Foreign exchange differences, net	52	(34)	1,016

8. FINANCE COSTS

	Year ended 31 December		
	2008	2009	2010
	US\$'000	US\$'000	US\$'000
Interest on a promissory note (<i>note</i>)	1,056	–	–
Amortisation of redemption premium on subordinated zero-coupon notes	2,029	2,232	1,821
Interest on a loan from the immediate holding company	–	–	249
	<u>3,085</u>	<u>2,232</u>	<u>2,070</u>

Note: MFV Limited issued a promissory note (the “Promissory Note”) in the principal amount of US\$15,150,000 to its then sole shareholder, GT16 Mangakahia Holding Co. Ltd. (“GT16 Holding”) on 27 March 2003, as amended on 30 June 2008, with a maturity date of 15 December 2008. The Promissory Note was unsecured and bore interest at the rate of 8% per annum. During the year ended 31 December 2008, the Promissory Note was settled by way of issuance of 41,079 ordinary shares of MFV Limited to GT16 Holding, as further detailed in note 21(b) of this section.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****9. INCOME TAX**

	Year ended 31 December		
	2008 US\$'000	2009 US\$'000	2010 US\$'000
Current	–	–	1,033
Deferred (<i>note 20</i>)	(7,200)	1,847	1,370
Total tax charge/(credit) for the year	<u>(7,200)</u>	<u>1,847</u>	<u>2,403</u>

No income tax has been provided for each of the years ended 31 December 2008 and 2009 in respect of the MFVL Group's operations in New Zealand as the MFVL Group did not have any assessable profits during these years, based on the existing legislation, interpretations and practices in respect thereof. New Zealand income tax has been provided in respect of the estimated assessable profits for the year ended 31 December 2010 arising from the MFVL Group's operations in New Zealand, based on the existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the income tax rate generally applicable for enterprises established in New Zealand to the tax expense/(credit) at the MFVL Group's effective income tax rate for each of the Relevant Periods is as follows:

	Year ended 31 December		
	2008 US\$'000	2009 US\$'000	2010 US\$'000
Profit/(loss) before tax	<u>(19,527)</u>	<u>5,082</u>	<u>11,340</u>
Tax at the applicable income tax rate of 30%	(5,858)	1,525	3,402
Income not subject to tax	(1,373)	(178)	(588)
Expenses not deductible for tax	31	500	36
Others	–	–	(447)
Tax expense/(credit) at the MFVL Group's effective rate	<u>(7,200)</u>	<u>1,847</u>	<u>2,403</u>

10. INTERIM DIVIDENDS

During the year ended 31 December 2008, interim dividends of US\$26.79 and US\$2.45 per ordinary share (approximately US\$2,550,000 in aggregate), based on the then number of issued shares, were declared in May and December 2008, respectively, by MFV Limited. During the year ended 31 December 2010, an interim dividend of US\$4.05 per ordinary share (approximately US\$537,000 in aggregate), based on the then number of issued shares, was declared in October 2010 by MFV Limited.

Save as disclosed above, MFV Limited did not have other dividends declared during the Relevant Periods.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****11. PROPERTY, PLANT AND EQUIPMENT**

	Forestry land <i>US\$'000</i> <i>(notes (a) and (b))</i>	Capital roading <i>US\$'000</i>	Equipment <i>US\$'000</i>	Total <i>US\$'000</i>
Net carrying amount:				
At 1 January 2008	11,669	489	4	12,162
Additions	–	180	8	188
Depreciation provided during the year	–	–	(1)	(1)
At 31 December 2008 and 1 January 2009	11,669	669	11	12,349
Additions	–	454	–	454
Deficit on revaluation	(2,919)	–	–	(2,919)
Depreciation provided during the year	–	–	(3)	(3)
At 31 December 2009 and 1 January 2010	8,750	1,123	8	9,881
Additions	–	8	4	12
Surplus on revaluation	3,270	–	–	3,270
Depreciation provided during the year	–	(34)	–	(34)
At 31 December 2010	<u>12,020</u>	<u>1,097</u>	<u>12</u>	<u>13,129</u>
At 1 January 2008:				
Cost	–	489	17	506
Valuation	11,669	–	–	11,669
Accumulated depreciation	–	–	(13)	(13)
Net carrying amount	<u>11,669</u>	<u>489</u>	<u>4</u>	<u>12,162</u>
At 31 December 2008:				
Cost	–	669	25	694
Valuation	11,669	–	–	11,669
Accumulated depreciation	–	–	(14)	(14)
Net carrying amount	<u>11,669</u>	<u>669</u>	<u>11</u>	<u>12,349</u>
At 31 December 2009:				
Cost	–	1,123	25	1,148
Valuation	8,750	–	–	8,750
Accumulated depreciation	–	–	(17)	(17)
Net carrying amount	<u>8,750</u>	<u>1,123</u>	<u>8</u>	<u>9,881</u>
At 31 December 2010:				
Cost	–	1,131	29	1,160
Valuation	12,020	–	–	12,020
Accumulated depreciation	–	(34)	(17)	(51)
Net carrying amount	<u>12,020</u>	<u>1,097</u>	<u>12</u>	<u>13,129</u>

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****11. PROPERTY, PLANT AND EQUIPMENT (continued)***Notes:*

- (a) The forestry land represents freehold land in New Zealand. Forestry land is kind of property, plant and equipment under the definition of HKAS 16 *Property, Plant and Equipment*. The MFVL Group uses the revaluation model of HKAS 16 to account for the forestry land, which requires that revaluation should be performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

As at 31 December 2008, the MFVL Group's forestry land as at 31 December 2008 was stated at the valuation amount on 31 December 2007 as revalued by Telfer Young (Northland) Ltd., independent professionally qualified valuers, with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the MFV Group. In the opinion of the directors, there were no significant changes in the fair value of the forestry land during the year ended 31 December 2008.

The MFVL Group's forestry land was revalued on 31 December 2009 and 2010 by Telfer Young (Northland) Ltd., independent professionally qualified valuers, with reference to the market price transactions on arm's length terms for land comparable in size and location to that held by the MFVL Group.

- (b) Had the forestry land been carried under the cost model, the carrying amount of the forestry land of the MFVL Group would have been approximately US\$10,770,000 as at 31 December 2008, 2009 and 2010.

12. PLANTATION FOREST ASSETS

	Year ended 31 December		
	2008	2009	2010
	US\$'000	US\$'000	US\$'000
At 1 January	59,000	38,220	48,253
Harvested as agricultural produce	(6,501)	(1,920)	(42)
Changes in fair value less costs to sell	(14,607)	11,549	13,346
Exchange realignment	328	404	43
	<u>38,220</u>	<u>48,253</u>	<u>61,600</u>
At 31 December	<u>38,220</u>	<u>48,253</u>	<u>61,600</u>

During the Relevant Periods, the MFVL Group had an interest in intensively managed Pinus radiata plantation forest assets in Northland region of New Zealand (the "Mangakahia Forest"), which had a total freehold title land base of 13,095 hectares, of which 10,990 hectares was net productive area. All the productive area was owned freehold, except 80 hectares which were held through a single rotation forestry right. The interest in the plantation forest assets as at 31 December 2008 and 2009 was held through a joint venture arrangement while it was held directly by the MFVL Group as at 31 December 2010 after the joint venture was dissolved during the year then ended, as further detailed in note 13 of this section.

The MFVL Group's plantation forest assets in New Zealand are regarded as biological assets which are measured at fair value less costs to sell at the end of each reporting period in accordance with HKAS 41 *Agriculture*. These assets were independently valued by Jones Lang LaSalle Sallmanns Limited on 31 December 2010 and by URS New Zealand Limited on 31 December 2008 and 2009. In view of the non-availability of market value for tree plantation in New Zealand, the professional valuers have applied the net present value approach whereby projected future net cash flows, based on their assessments of current timber log prices, were discounted at the pre-tax discount rates of 8.1%, 8.1% and 11% for the plantation forest assets for 2008, 2009 and 2010, respectively, to arrive at the fair value of the plantation forest assets.

The discount rates used in the valuation of the plantation forest assets in New Zealand as at 31 December 2008, 2009 and 2010 were determined by reference to discount rates published by public entities and government agencies in New Zealand, weighted average cost of capital analysis, internal rate of return analysis, surveyed opinion of forest valuers practice and the implied discount rate of forest sales transactions mainly in New Zealand over a period of time, with more weight given to the implied discount rate.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****13. INTERESTS IN JOINT VENTURES**

Prior to the termination of a joint venture arrangement as further detailed below, MFV Limited jointly with a third party independent to the MFVL Group (the “Joint Venture Partner”) owned the Mangakahia Forest (as defined in note 12 of this section) for the purpose of generating revenue by harvesting timbers.

The joint venture was operated through (i) joint ownership of the plantation forest assets adhered on the Mangakahia Forest by the two parties (the “Jointly-controlled Assets”); and (ii) establishment of two jointly-controlled entities, namely Mangakahia Forest Limited (“MFL”) and Mangakahia Forest Management Limited (“MFML”), for the purpose of holding the forestry land and engaging in a portion of the commercial forestry business. MFV Limited’s interests in each of the jointly-controlled assets and the jointly-controlled entities are all 50%.

Pursuant to a partition agreement dated 7 July 2009 entered into between MFV Limited and the Joint Venture Partner, the joint venture was terminated during the year ended 31 December 2010. As a result of which, the Jointly-controlled Assets were split into four separate parcels of approximate equal value, with two parcels being allocated to each joint venture partner and the two jointly-controlled entities, namely MFL and MFML, were dissolved on 8 January 2010 and 19 April 2010 respectively.

Interests in the jointly-controlled assets

The Jointly-controlled Assets of the MFVL Group as at 31 December 2008 and 2009 represented the MFVL Group’s 50% ownership interest in the plantation forest assets adhered on the Mangakahia Forest. Further details of the plantation forest assets are set out in note 12 of this section.

Interests in jointly-controlled entities

Particulars of the jointly-controlled entities are disclosed in note 1 of this section.

Summarised Financial Information of the joint ventures

The following tables illustrate the summarised Financial Information of the Jointly-controlled Assets and the jointly-controlled entities attributable to the MFVL Group:

Financial position

	2008	31 December	
	2009	2010	
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Current assets	974	1,471	–
Non-current assets	51,147	58,459	–
Current liabilities	(543)	(876)	–
Non-current liabilities	(2,991)	(4,838)	–
Net assets	<u>48,587</u>	<u>54,216</u>	<u>–</u>

Results

	Year ended 31 December		
	2008	2009	2010
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Revenue	7,163	18,404	1,004
Total expenses	(21,577)	(9,483)	(1,683)
Income tax	7,200	(1,584)	–
Profit/(loss) after tax	<u>(7,214)</u>	<u>7,337</u>	<u>(679)</u>

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****14. INVENTORIES**

The inventories of the MFVL Group as at 31 December 2009 and 2010 represented harvested trees held for sale.

15. TRADE RECEIVABLES

The MFVL Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30-60 days. The MFVL Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. In the opinion of the directors of MFV Limited, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

As at the end of each of the Relevant Periods, all of the trade receivables of the MFVL Group were aged within six months of invoice date and were neither past due nor impaired.

16. CASH AND BANK BALANCES

As at the end of each of the Relevant Periods, the cash and bank balances of the MFVL Group were denominated in the following currencies:

	31 December		
	2008	2009	2010
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
NZ\$	376	726	118
US\$	264	4	–
	<u>640</u>	<u>730</u>	<u>118</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

17. TRADE PAYABLES

As at the end of each of the Relevant Periods, all of the trade payables of the MFVL Group were aged within six months of the invoice date.

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****18. BALANCES WITH THE IMMEDIATE HOLDING COMPANY**

The loan from the immediate holding company as at 31 December 2010 is unsecured, bears interest at the rate of 5% per annum and is repayable on demand. The amount due to the immediate holding company as at 31 December 2010 is unsecured, interest-free and has no fixed terms of repayment.

As disclosed in note 2 of this section, NZ Holdco has undertaken not to demand repayment of the amounts due to it until such time when the MFVL Group is in a position to repay without impairing its liquidity and financial position.

19. SUBORDINATED ZERO-COUPON NOTES

	31 December		
	2008	2009	2010
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Subordinated zero-coupon notes at issue price	11,700	11,700	–
Accumulated amortisation of redemption premium	10,623	12,855	–
	<u>22,323</u>	<u>24,555</u>	<u>–</u>

The subordinated zero-coupon notes (the “Subordinated Notes”) of the MFVL Group as at 31 December 2008 and 2009 had a total principal amount of US\$33,380,884 at maturity (the “Principal Amount”) and were issued by MFV Limited to GT16 Holding in 2002 at an issue price of US\$350.5 for each US\$1,000 Principal Amount at maturity for total cash proceeds of US\$11,700,000. The Subordinated Notes are subordinated to all existing and future senior indebtednesses (as defined in the note agreement) of MFV Limited.

The Subordinated Notes have a maturity date of 25 March 2032 but could be early redeemed as a whole, or in part, at the option of MFV Limited at any time, at the redemption price set forth in the note agreement. The Subordinated Notes were unsecured, bore interest beginning on 25 March 2013 at the rate of 10% per annum of the Principal Amount and, unless early redeemed by MFV Limited, were wholly repayable at the total Principal Amount on the maturity date.

During the year ended 31 December 2010, the Subordinated Notes were early redeemed by MFV Limited at a redemption price of US\$790.4 for each US\$1,000 Principal Amount or approximately US\$26,385,000 in total in accordance with the note agreement.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****20. DEFERRED TAX**

	Deferred tax asset arising from losses available for offsetting against future taxable profit <i>US\$'000</i>	Deferred tax liability arising from the Subordinated Notes and the Promissory Note <i>US\$'000</i>	Deferred tax liability arising from revaluation of plantation forest assets <i>US\$'000</i>	Net deferred tax liabilities <i>US\$'000</i>
At 1 January 2008	7,327	(8,640)	(8,878)	(10,191)
Deferred tax credited/(charged) to the income statement during the year (<i>note 9</i>)	(1,957)	5,437	3,720	7,200
At 31 December 2008 and 1 January 2009	5,370	(3,203)	(5,158)	(2,991)
Deferred tax credited/(charged) to the income statement during the year (<i>note 9</i>)	2,922	(3,319)	(1,450)	(1,847)
At 31 December 2009 and 1 January 2010	8,292	(6,522)	(6,608)	(4,838)
Deferred tax credited/(charged) to the income statement during the year (<i>note 9</i>)	(8,292)	6,522	400	(1,370)
At 31 December 2010	<u>–</u>	<u>–</u>	<u>(6,208)</u>	<u>(6,208)</u>

21. SHARE CAPITAL

	2008 <i>US\$'000</i>	31 December 2009 <i>US\$'000</i>	2010 <i>US\$'000</i>
Authorised (<i>note (a)</i>)	<u>50,000</u>	<u>50,000</u>	<u>N/A</u>
Issued and fully paid	<u>–</u>	<u>–</u>	<u>–</u>

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****21. SHARE CAPITAL (continued)**

A summary of the movements in MFV Limited's issued share capital during each of the Relevant Periods is as follows:

	<i>Notes</i>	Number of shares in issue	Issued capital US\$'000	Share premium account US\$'000	Total US\$'000
At 1 January 2008		83,750	–	16,750	16,750
Shares issued during the year	(b)	41,079	–	15,150	15,150
At 31 December 2008 and 1 January 2009		124,829	–	31,900	31,900
Shares issued during the year	(c)	119	–	410	410
At 31 December 2009 and 1 January 2010		124,948	–	32,310	32,310
Shares issued during the year	(d)	7,593	–	1,600	1,600
At 31 December 2010		<u>132,541</u>	<u>–</u>	<u>33,910</u>	<u>33,910</u>

Notes:

- (a) As at 31 December 2008 and 2009, MFV Limited had authorised share capital of US\$50,000,000 divided into 50,000,000,000 ordinary shares of US\$0.001 each. Following the re-registration of MFV Limited from the Cayman Islands to New Zealand during the year ended 31 December 2010 as mentioned in note 1 of this section, MFV Limited's share capital no longer has a par value, or a limit to the number of authorised shares.
- (b) Pursuant to the written resolutions of the directors of MFV Limited in December 2008, 41,079 ordinary shares of MFV Limited were issued to GT16 Holding in satisfaction of the principal amount of US\$15,150,000 due on the Promissory Note (as defined in note 8) on its maturity date of 15 December 2008.
- (c) Pursuant to the written resolutions of the directors of MFV Limited in December 2009, 119 ordinary shares of MFV Limited were issued to GT16 Holding in satisfaction of a debt of approximately US\$410,000 owed by MFV Limited to GT16 Holding.
- (d) Pursuant to the written resolutions of the directors of MFV Limited in February 2010, 7,593 ordinary shares of MFV Limited were issued to GT16 Holding in satisfaction of a debt of approximately US\$1,600,000 owed by MFV Limited to GT16 Holding.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****22. RELATED PARTY DISCLOSURES**

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the MFVL Group had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December		
	2008	2009	2010
	US\$'000	US\$'000	US\$'000
Redemption premium on the Promissory Note issued to to GT16 Holding	1,056	–	–
Interest expenses on the Subordinated Notes issued to to GT16 Holding	2,029	2,232	1,821
Interest expense on a loan from NZ Holdco	–	–	249
	<u> </u>	<u> </u>	<u> </u>

Details of the terms of the Promissory Note, the Subordinated Notes and the loan from NZ Holdco are set out in notes 8, 19 and 18 of this section, respectively.

- (b) Outstanding balances with related parties

Other than the balances with NZ Holdco and GT16 Holding as disclosed in notes 18 and 19 of this section, respectively, the MFVL Group did not have other outstanding balance with related parties as at the end of each of the Relevant Periods.

- (c) Compensation of key management personnel of the MFVL Group

In the opinion of the directors of MFV Limited, the directors of MFV Limited represent the key management personnel of the MFVL Group. During each of the Relevant Periods, no compensation was paid to the key management personnel.

23. FINANCIAL INSTRUMENTS BY CATEGORY

The financial assets and financial liabilities of the MFVL Group as at 31 December 2008, 2009 and 2010 are loans and receivables and financial liabilities stated at amortised cost, respectively.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The MFVL Group's principal financial instruments comprise cash and bank balances, trade and other receivables, trade and other payables, amounts due to the immediate holding company and the Subordinated Notes.

Risk exposures and responses

The MFVL Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the MFVL Group's financial risk management policy. The objective of the policy is to support the delivery of the MFVL Group's financial targets while protecting future financial security.

The main risks arising from the MFVL Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The MFVL Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risk management is carried out by the directors of MFV Limited. Management reviews and agrees policies for managing each of the risks identified below:

(i) Interest rate risk

At the end of each of the Relevant Periods, the MFVL Group had cash and bank balances that were exposed to variable interest rate risk in New Zealand.

At 31 December 2008 and 2009, the MFVL Group's borrowings were the Subordinated Notes which were carried at amortised cost, so the MFVL Group was not exposed to interest rate risk in respect of this debt. The Subordinated Notes were repaid during the year ended 31 December 2010.

The MFVL Group's loan from the immediate holding company as at 31 December 2010 has a market interest rate and is carried at amortised cost, so the MFVL Group is not exposed to interest rate risk in respect of this debt.

(ii) Foreign currency risk

The MFVL Group has transactional currency exposures. Such exposures arise from sales or purchases by the MFVL Group in currencies other than the functional currency. The MFVL Group has exposure to foreign currency denominated financial instruments at the end of each of the Relevant Periods through its investment in working capital, namely cash and bank balances, trade and other receivables and trade and other payables, which are mostly denominated in New Zealand dollars. The net exposure to New Zealand dollars working capital is not significant, however and consequently, the MFVL Group does not actively hedge this exposure.

The MFVL Group also has exposure to foreign currency risk through the translation of operations that are not denominated in the functional currency.

(iii) Credit risk

Credit risk arises from the financial assets of the MFVL Group, which comprise cash and bank balances and trade and other receivables. The MFVL Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of the financial assets reported in the statement of financial position. The MFVL Group does not hold any credit derivatives to offset its credit exposure.

The MFVL Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the MFVL Group's policy to securitise its trade and other receivables.

Receivable balances are monitored on an ongoing basis with the result that the MFVL Group's experience of bad debts has not been significant.

I. FINANCIAL INFORMATION (continued)**Notes to Financial Information****24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Risk exposures and responses (continued)***(iv) Liquidity risk*

The MFVL Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The MFVL Group finances its working capital and capital expenditure requirements through a combination of funds generated from operations and, when necessary, advances from the holding companies.

In the opinion of the directors of MFV Limited, the MFVL Group's exposure to liquidity risk is minimal as Sino-Forest, the ultimate holding company, has agreed to provide continual financial support to the MFVL Group as and when required; and NZ Holdco, the immediate holding company, has undertaken not to demand for repayment of the amounts due by the MFVL Group until the MFVL Group is in the position to repay without impairing its liquidity and financial position. Further details of which are set out in note 2 of this section.

The maturity profile of the MFVL Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

	On demand US\$'000	Less than 3 months US\$'000	3 to less than 12 months US\$'000	1 to 5 years US\$'000	Over 5 years US\$'000	Total US\$'000
As at 31 December 2008						
Subordinated Notes	–	–	–	1,669	95,135	96,804
Trade payables	–	692	–	–	–	692
Other payables	–	51	–	–	–	51
	–	743	–	1,669	95,135	97,547
As at 31 December 2009						
Subordinated Notes	–	–	–	5,007	91,797	96,804
Trade payables	–	871	–	–	–	871
Other payables	–	10	–	–	–	10
	–	881	–	5,007	91,797	97,685
As at 31 December 2010						
Trade payables	–	645	–	–	–	645
Loan from the immediate holding company	26,874	–	–	–	–	26,874
Due to the immediate holding company	–	367	–	–	–	367
	26,874	1,012	–	–	–	27,886

Capital management

The primary objective of the MFVL Group's capital management is to safeguard its ability to continue as a going concern. The MFVL Group does not have specific policies for managing capital but it will continue to utilise funding from its shareholder to maintain a healthy capital ratio.

II. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the MFVL Group have been prepared in respect of any period subsequent to 31 December 2010.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

2. MANAGEMENT DISCUSSION AND ANALYSIS ON THE MFVL GROUP

Set out below is the management discussion and analysis on the performance of the MFVL Group during the three financial years ended 31 December 2008, 2009 and 2010 (the “Relevant Periods”):

Business Review

The MFVL Group was principally engaged in the investment in commercial forestry, namely the Mangakahia Forest which is located in the Northland region of New Zealand. Northland is the second largest plantation region in New Zealand and is recognised as one of the country’s preeminent plantation regions. This area features some of the highest growth rates in the country as a result of the favourable climate, fertile soil and year round rainfall. The average growth rate over the life of the Mangakahia Forest is estimated to be 25m³ per year. Since timber from the Northland region is characterised by high density and stiffness, the logs from Mangakahia Forest can be used to produce high-value sawlogs and is suitable for structural lumber fabrication and engineered wood products.

The average age of the trees in the Mangakahia Forest is approximately 23 years and the optimal harvest age in the Northland region for the production of structural timber is 27 years. The total recoverable volume of timber (i.e. stand age 20 years and older) was approximately 5.6 million m³ as at 31 December 2009. Of that amount, over 47% is currently merchantable (i.e. stands age 25 years and older). Furthermore, sawlogs account for over 61% of current merchantable inventory.

Pursuant to a joint venture agreement dated 27 March 2002 between MFVL and a third party independently to the MFVL Group (the “Joint Venture Partner”), MFVL and the Joint Venture Partner jointly owned and intensively managed Pinus radiata plantation forest assets in Northland region of New Zealand with a total land area of 21,650 hectares (the “Jointly Owned Forest”).

The joint venture was operated through (i) joint ownership of the plantation forests adhered on the Jointly Owned Forest by the two parties (the “Jointly-controlled Assets”); and (ii) establishment of two jointly-controlled entities, namely Mangakahia Forest Limited (“MFL”) and Mangakahia Forest Management Limited (“MFML”), for the purpose of holding the forestry land and engaging in a portion of the commercial forestry business. MFV Limited’s interest in each of the jointly-controlled assets and the jointly-controlled entities are all 50%.

Pursuant to a participation agreement dated 7 July 2009 entered into between MFV Limited’s and the Joint Venture Partner, the joint venture was terminated during the year ended 31 December 2010. As a result of which, the Jointly-controlled Assets were split into four separate parcels of approximate equal value, with two parcels being allocated to each joint venture partner and the two jointly-controlled entities, namely MFL and MFML were dissolved on 8 January 2010 and 19 April 2010, respectively. After the participation, a total of 13,095 hectares, of which 10,990 hectares net productive area of the Jointly Owned Forest (the “Mangakahia Forest”) is owned by MFVL Group.

During the Relevant Periods, MFVL Group recorded revenue of approximately US\$11,827,000, US\$8,765,000, and US\$997,000, respectively, which mainly represented sales of logs harvested from the Mangakahia Forest. Decrease in revenue during 2009 was mainly due to the decrease in demand as a result of the global financial crisis. During the year ended 31 December 2010, revenue of MFVL Group further decreased to US\$997,000 was mainly due to the minimal activities carried out by MFVL Group as a result of the winding up of the joint venture and partitioning the forest and land.

The forestry land of MFVL Group represents the freehold land in New Zealand and is reduced at fair value at the end of each reporting period. There was no significant change in the fair value of the forestry land in 2008. During the year ended 31 December 2009, the fair value of the forestry land decreased by US\$2,919,000, of which US\$899,000 was charged against the forestry land revaluation reserve and the remaining deficit of US\$2,020,000 was recognised to the consolidated income statement. In 2010, the fair value of the forestry land increased by US\$3,270,000, of which the surplus of US\$2,020,000 and US\$1,250,000 were credited to the consolidated income statement and forestry land revaluation reserve, respectively.

The changes in fair value on plantation forest assets during the Relevant Periods amounted to loss of US\$14,607,000, gain of US\$11,549,000 and gain of US\$13,346,000, respectively. Gains were recorded during 2009 and 2010 were mainly due to the combined effect of the higher log prices and the growth of the tree crops and hence, leading to the increase in fair values.

The profit/loss attributable to the equity holders of the MFVL Group during the Relevant Periods amounted to loss of US\$12,327,000, profit of US\$3,235,000 and profit of US\$8,937,000, respectively, which was mainly due to the changes in fair values on forestry land and plantation forest assets recorded during the Relevant Periods.

Liquidity and financial resources

As at 31 December 2008, 2009 and 2010, the MFVL Group maintained cash and bank balances of approximately US\$640,000, US\$730,000 and US\$118,000, respectively. The net current assets of the MFVL Group as at 31 December 2008 and 2009 were US\$1,327,000 and US\$914,000, respectively, as at 31 December 2010 was net current liabilities of US\$27,671,000. The external and internal borrowings of the MFVL Group as at 31 December 2008, 2009 and 2010 were approximately US\$22,323,000, US\$24,555,000, and US\$26,874,000, respectively. Accordingly, the gearing ratio, which was calculated on the basis of the total borrowings as a percentage of equity attributable to equity holders of the MFVL Group were 84.0%, 82.8% and 65.79%, respectively.

Financing

Total borrowings of the MFVL Group, as at 31 December 2008, 2009 and 2010, were approximately US\$22,323,000, US\$24,555,000 and US\$26,874,000, respectively, which mainly represented the subordinated zero-coupon notes issued on 25 March 2002 which were fully settled in October 2010 and the loan from the immediate holding company. No other banking and loan facilities were obtained during the Relevant Periods.

Capital structure

The capital structure of the MFVL Group was composed of equity and debt; the MFVL Group generally financed its operations from capital contributions by its equity holders and subordinated debt investors.

As at 31 December 2008, 2009 and 2010, net assets of the MFVL Group were approximately US\$26,582,000, US\$29,655,000 and US\$40,850,000 respectively. The significant improvement of the net assets was mainly attributable to the issuance of additional shares for the purpose of promissory note conversion.

Capital Expenditure

The MFVL Group invested approximately US\$188,000, US\$454,000, US\$12,000 in capital for the three years ended 31 December 2008, 2009 and 2010 respectively, which was used for property, plant and equipment as well as plantation forest assets.

As at 31 December 2008, 2009 and 2010, the MFVL Group had no significant capital commitment.

Significant investments

Other than holding the Mangakahia Forest, there was no significant investment held by the MFVL Group during the Relevant Periods.

Acquisition/disposal of subsidiary and Jointly-controlled Assets/Entities

Except as mentioned in the “Business Review” above, the MFVL Group had no material acquisition or disposal of subsidiary and Jointly-controlled Assets/Entities during the Relevant Periods.

Analysis of segmental information

The MFVL Group has only one operating segment, which was holding of investment in commercial forestry in New Zealand throughout the Relevant Periods, and accordingly, no segment information was presented.

Employees and staff policy

The MFVL Group has engaged an experienced forest management company in New Zealand to provide all forestry operations and managements services required for the Mangakahia Forest and therefore no staff was employed during the Relevant Periods.

Charges on the assets

As at 31 December 2008, 2009 and 2010, no assets of the MFVL Group were pledged.

Future plans for material investments or capital assets

As at 31 December 2010, the MFVL Group had no plans for material investments or capital assets.

Foreign exchange exposure and interest rate exposure

MFVL Group had exposure to foreign currency risk as some of its sales and operating expenses and working capital, namely cash and bank balances, trade and other receivables and trade and other payables, are denominated in New Zealand Dollars other than United States Dollars, the functional and presentation currency of MFVL Group. However, the net exposure to New Zealand dollars working capital is not significant and consequently MFVL Group does not actively hedge this exposure during the Relevant Periods.

The borrowings of the MFVL Group were mainly maintained at fixed interest rate basis. The interest rate risk of the MFVL Group was not significant and no related hedge was used.

Contingent liabilities

As at 31 December 2008, 2009 and 2010, MFVL Group had no significant contingent liabilities.

**I. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE
ENLARGED GROUP****A. Introduction**

The unaudited pro forma statement of assets and liabilities of the Enlarged Group (the “Statement”) set out in section B below has been prepared by the Directors in accordance with paragraph 14.67 of the Listing Rules, for illustrative purpose only, to provide information about how the proposed Acquisition might have affected the financial position of the Group as if the Acquisition had been completed on 30 September 2010.

The Statement has been prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2010 as set out in the Company’s announcement dated 9 November 2010 in respect of the Group’s unaudited results for the nine months ended 30 September 2010 and the audited consolidated statement of financial position of the Target Group as at 31 December 2010 as set out in the Accountants’ Report of the Target Group included in Section 1 of Appendix II to this Circular, after making certain pro forma adjustments that are (i) directly attributable to the Acquisition and (ii) factually supportable, as further described in the accompanying notes.

The Statement is prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purposes only. Accordingly, as a result of the nature of the Statement, it may not give a true picture of the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on 30 September 2010. Furthermore, the Statement does not purport to predict the Enlarged Group’s future financial position.

The Statement should be read in conjunction with the financial information of the Group, the Target Group and the MFVL Group as set out in Appendices I, II and III to this circular, respectively, the Company’s announcement dated 9 November 2010 and other financial information included elsewhere in this circular.

APPENDIX IV
**UNAUDITED PRO FORMA STATEMENT OF ASSETS
AND LIABILITIES OF THE ENLARGED GROUP**
B. Unaudited pro forma statement of assets and liabilities of the Enlarged Group

	The Group 30 September 2010 HK\$'000 (Note 1)	The Target Group 31 December 2010 HK\$'000 (Note 2)	Pro forma adjustments			Pro forma Combined: The Enlarged Group HK\$'000
			HK\$'000 (Note 4)	HK\$'000 (Note 5)	HK\$'000 (Note 6)	
NON-CURRENT ASSETS						
Property, plant and equipment	27,802	102,406				130,208
Prepaid land lease payment	1,448	–				1,448
Prepayments and deposits	1,989	–				1,989
Timber concessions and cutting rights	744,302	–				744,302
Goodwill	7,624	–				7,624
Plantation forest assets	–	480,480				480,480
Total non-current assets	783,165	582,886				1,366,051
CURRENT ASSETS						
Inventories	7,856	3,674				11,530
Trade and other receivables	935	382				1,317
Prepayments and deposits	1,673	4,758				6,431
Cash and cash equivalents	632,594	920				633,514
Total current assets	643,058	9,734				652,792
CURRENT LIABILITIES						
Trade and other payables	11,351	5,920			4,000	21,271
Deposits received	283	–				283
Deposits received from a fellow subsidiary	22,565	–				22,565
Income tax payable		9,399				9,399
Loan from the ultimate holding company	–	396,614	(312,000)	(84,614)		–
Due to the ultimate holding company	–	2,894				2,894
Due to fellow subsidiaries	–	187				187
Total current liabilities	34,199	415,014				56,599
NET CURRENT ASSETS/(LIABILITIES)	608,859	(405,280)				596,193
TOTAL ASSETS LESS CURRENT LIABILITIES	1,392,024	177,606				1,962,244

APPENDIX IV

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group 30 September 2010 HK\$'000 (Note 1)	The Target Group 31 December 2010 HK\$'000 (Note 2)	Pro forma adjustments			Pro forma Combined: The Enlarged Group HK\$'000
			HK\$'000 (Note 4)	HK\$'000 (Note 5)	HK\$'000 (Note 6)	
NON-CURRENT LIABILITIES						
Bank loan borrowings	-	-	312,000			312,000
Convertible bonds	141,800	-				141,800
Deferred tax liabilities	73,502	4,485				77,987
Total non-current liabilities	215,302	4,485				531,787
NET ASSETS	1,176,722	173,121				1,430,457

Notes:

- The balances are extracted from the condensed consolidated statement of financial position of the Group as at 30 September 2010, as set out in the Company's announcement dated 9 November 2010 in respect of the Group's unaudited results for the nine months ended 30 September 2010.
- The balances are extracted from the audited consolidated statement of financial position of the Target Group as at 31 December 2010 included in the Accountants' Report of the Target Group, as set out in section 1 of Appendix II to this Circular and are translated into Hong Kong dollars at the translation rate of US\$1 = HK\$7.8.
- As the Company's controlling shareholder controlled the entire equity interest of the Target Group immediately before the Acquisition and continues to control the Target Group after the Acquisition through the Company, the proforma financial information of the Enlarged Group has been prepared on the basis of reorganisation of business under common control which is in accordance with the principles of merger accounting. Accordingly, the relevant assets and liabilities of the Target Group have been recognised at historical cost.
- As set out in the Sale and Purchase Agreement, it is anticipated that before Completion, the Target Co will enter into the Term Loan Facility or the Guarantor Term Loan Facility (as the case may be) of US\$40 million (equivalent to HK\$312,000,000) and use the net proceeds from the drawdown thereof to repay the Shareholder's Loan and related accrued interest payable of approximately HK\$396,614,000 in part. In accordance with the Sale and Purchase Agreement, the remaining outstanding amount of the Shareholder's Loan after partial repayment, together with the consideration for the acquisition of the Sale Shares, will be settled by way of issuance of up to 144,300,000 Shares of the Company and any balance of the Consideration after deduction of the aggregate Issue Price for all the Consideration Shares will be satisfied in cash.
- Being adjustment to reflect the settlement of the remaining outstanding amount of the Shareholder's Loan by the issuance of new shares of the Company in accordance with the Sale and Purchase Agreement. Based on the Issue Price as calculated in accordance with the Sale and Purchase Agreement and assuming the Acquisition and the Assignment had been completed on 30 September 2010, no cash consideration would be required for the acquisition of the Sales Shares and the assignment of the remaining outstanding amount of the Shareholder's Loan. However, since the Issue Price and the amount of the outstanding Shareholder's Loan used for the purpose of the Statement may be substantially different from those calculated based on actual Completion Date, the actual number of the Consideration Shares and cash consideration given by the Company under the Sale and Purchase Agreement may differ significantly from those presented in the Statement above.
- Being adjustment to reflect the estimated legal and professional costs directly attributable to the Acquisition, which amounts to approximately HK\$4,000,000. The legal and professional costs are non-recurring nature and will not have a continuing effect on the financial statements on the Enlarged Group in subsequent years.
- For the purpose of the pro forma adjustments, the balances stated in US\$ are converted into Hong Kong dollars at the rate of US\$1=HK\$7.8.
- No adjustment has been made to reflect any trading result, further drawdown under the Shareholder's Loan or other transaction of the Enlarged Group entered into subsequent to 31 December 2010.

II. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Section I of Appendix IV to this Circular.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

11 March 2011

The Board of Directors
Greenheart Group Limited
16/F, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Greenheart Group Limited
Unaudited Pro Forma Statement of Assets and Liabilities

Dear Sirs,

We report on the unaudited pro forma statement of assets and liabilities (the “Unaudited Pro Forma Statement of Assets and Liabilities”) set out in Section I of Appendix IV to the shareholders’ circular (the “Circular”) of Greenheart Group Limited (the “Company”, together with its subsidiaries, referred to as the “Group”) dated 11 March 2011, which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Mega Harvest International Limited (the “Target Co”, together with its subsidiaries, referred to as the “Target Group”) might have affected the historical financial information presented therein. The basis of preparation of the Unaudited Pro Forma Statement of Assets and Liabilities is set out in the section A headed “Introduction” in Section I of Appendix IV to the Circular.

Respective responsibilities of the directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Statement of Assets and Liabilities in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Statement of Assets and Liabilities and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Statement of Assets and Liabilities beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 *Accountants’ Reports on Pro Forma Financial Information in Investment Circulars* issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the unaudited evidence supporting the adjustments and discussing the Unaudited Pro Forma Statement of Assets and Liabilities with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Statement of Assets and Liabilities.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Statement of Assets and Liabilities has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Statement of Assets and Liabilities as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Statement of Assets and Liabilities is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2010 had the acquisition of the Target Group actually been completed on that date or any future dates.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Statement of Assets and Liabilities has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Statement of Assets and Liabilities as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

I. PLANTATION FOREST ASSETS VALUATION REPORT OF THE TARGET GROUP

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 December 2010 of the plantation forest assets of the Target Group.



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牌照號碼: C-030171

11 March 2011

The Board of Directors
Greenheart Group Limited

Dear Sirs,

In accordance with the instructions from Greenheart Group Limited (“Greenheart” or the “Company”), we have carried out a valuation exercise which requires Jones Lang LaSalle Sallmanns Limited (“JLLS”) to express an independent opinion of the fair values of the economic interest in the plantation forest assets (the “Plantation Forest Assets”) located in New Zealand owned by the Mega Harvest International Limited and its subsidiaries (the “Target Group”) as at 31 December 2010 (“Valuation Date”). The Plantation Forest Assets comprise of around 13,000 hectares of radiata pine trees. The report which follows is dated 11 March 2011 (the “Report Date”).

The purpose of this valuation is to express an independent opinion on the fair values of the Plantation Forest Assets as at the Valuation Date for accounting reference.

Our valuation was carried out on a fair value basis. Fair Value is defined as “*the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction*”.

Our opinion on the fair values of the Plantation Forest Assets was developed through the application of the discounted cash flow method of the income approach. In conducting our valuation of the Plantation Forest Assets, we have also reviewed information from several sources, conducted interviews and discussions with the management and conducted research using various public sources and publications.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of the Plantation Forest Assets by the Target Group. We have also considered various risks and uncertainties that have potential impact on the Plantation Forest Assets.

We understand this valuation will be used as a reference for your investment purpose, details of which are set out in the circular dated 11 March 2011 issued by the Company to the Shareholders (the “Circular”), of which this valuation report forms part. Unless otherwise stated, terms used in this valuation report have the same meaning as those defined in the circular to the shareholders dated 11 March 2011. Our analysis was conducted for the above mentioned purpose only and this report should be used for no other purposes.

INTRODUCTION

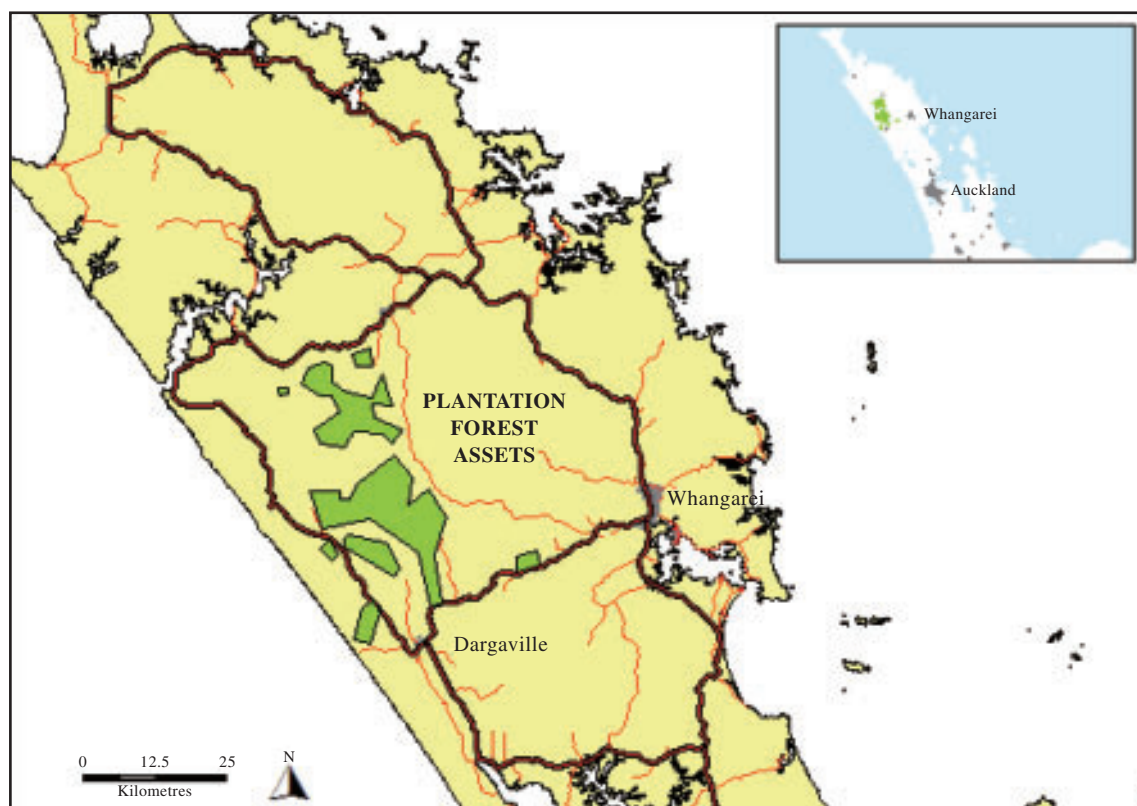
On 7 January 2011, the Company entered in to the Sale and Purchase Agreement with Sino-Capital Global Limited (“Sino-Capital”) and Sino-Forest Corporation (“Sino-Forest”), pursuant to which Sino-Capital has conditionally agreed to sell and assign, and the Company has conditionally agreed to purchase, the entire issued share capital of Mega Harvest International Limited (“Target Co”), together with the a shareholder’s loan owed by NZ Forestry Holding Company Limited, a company incorporated with limited liability in New Zealand and an indirect wholly-owned subsidiary of Target Co.

The Target Co is a special purchase vehicle set up by Sino-Capital for the acquisition of the entire interests of MFV Limited, a company incorporated with limited liability in New Zealand and an indirect wholly-owned subsidiary of the Target Co, which, together with its subsidiaries, in return owns intensively managed Pinus Radiata Pine plantation forest assets in New Zealand, i.e. Plantation Forest Assets.

BACKGROUND

The Plantation Forest Assets is located approximately 60kms west of Whangarei and 150kms north of New Zealand's largest city, Auckland and consists of approximately 13,000 hectares of freehold land, of which 10,256 hectares is currently stocked in plantation forest, with 491 hectares awaiting replanting. The net stocked area (NSA) excludes buildings, roads, non-production areas and areas removed from production. The forest makeup is mostly mature, or near-mature with 82% of forest aged 20 years and above.

The forest estate consists almost entirely of radiata pine. There is a small area (<15 hectares) of other minor species. The forest is managed as a framing regime, although the areas established in 1992 have followed a silviculture treatment consistent with a pruning regime. Radiata pine in New Zealand is normally harvested at ages greater than 25 years. There may be situations where younger stands are felled because of operational needs or land tenure restrictions, but on average, age 25 years and older prevails.

Location of the Plantation Forest Assets in the Northland Region of New Zealand

The forest estate modelling of the resource has used a minimum harvesting age of 25 years in some near-term forest blocks where harvest planning is underway and scheduled across 2011 to 2013. For the other areas of the estate a minimum average harvest age of 27 years applies.

SOURCE OF INFORMATION

In conducting our values of the Plantation Forest Assets, we have taken into account the physical, biological and operating conditions of the Plantation Forest Assets. In addition, we have also reviewed the following information, including, but not limited to:

- Details of the quantity and description of the Plantation Forest Assets in different bases of the Target Group as at the Valuation Date, such as the full breakdown of area, species, origin, year of plantation of the subject assets, retrieved from the forest managers who manage the forest in the past years;
- Financial information, including historical and forecast sales revenue, cost of the production and capital expenditure provided by the Target Group;
- The business nature and characteristics of the Plantation Forest Assets provided by the Target Group, including the historical background and the surrounding geographical location in which Target Group forests operates, and;
- The potential business and financial risks related to and provided by the Target Group, such as risks exposed to natural disasters, legal constraints, continuity of revenues being generated.

VALUATION APPROACH AND METHODOLOGY

In arriving at the fair value of the Plantation Forest Assets as at the Valuation Date, we have considered three generally accepted approaches, namely market approach, cost approach and income approach. In our opinion, the market approach and cost approach are inappropriate for valuing the Plantation Forest Assets. Firstly, the market approach requires market transactions of directly comparable assets as an indication of value. However, we have not identified any current market transactions which are directly comparable. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the Target Group. We have therefore relied solely on the income approach in determining our opinion of value.

In this valuation exercise, the fair value of the Plantation Forest Assets was developed through the application of the income approach technique known as the discounted cash flow method. This method eliminates the discrepancy in the time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the operation.

General Assumptions:

- In order to realise the economic values of the subject assets, additional manpower, equipment and facilities are necessary to be employed. For the valuation exercise, we have assumed that all proposed facilities and systems will work properly and will be sufficient for future expansion.

- We have been provided with copies of the operating licences and financial information. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information in arriving at our opinion of value.
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic condition which may adversely affect the business.
- Operational and contractual terms bound by the contracts and agreements entered into by the Target Group will be honoured.
- Its competitive advantages and disadvantages do not change significantly during the period under consideration.

In arriving at our opinion and after due and careful enquiry, we have also considered and relied upon certain specific assumptions made by the directors of the Target Group which have been acknowledged and considered by the Directors, which are set out below.

Specific Assumptions:

The Target Group utilises a forest estate modelling process to forecast future wood flows and develop their operating strategy for the estate. The model manages supply chain optimisation by matching production by log type to various markets. These may include local sawmills, pulpwood processing facilities and export ports. Overlaid across market demands are operational constraints such as regeneration assumptions and limitations in the increment of the annual year-on-year harvested volume. The wood flow across the first three years of the forest estate model has been constrained to focus only on the specific forest blocks where the forest manager has scheduled harvest planning and infrastructure development. This process produces a cash flow schedule that forecasts wood flows by grade, forest stand, and end-use markets. It also derives the costs of production, forest management, land holding costs and all indirect overhead costs associated with third party contract management of the estate.

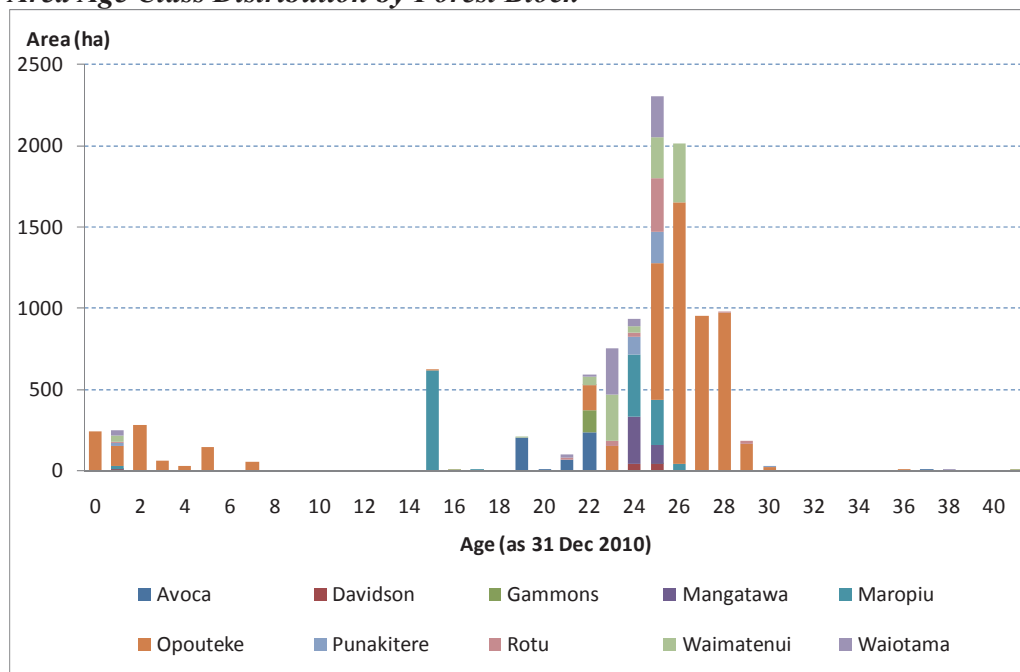
The forest estate model contains a number of operational constraints. These are real-world emulating constraints which assist in the accurate forecasting of future wood flows from the forest. The main factors used to constrain future wood flows are harvest age, the rate of change in harvest volume, and market limitations.

- ***Existing Age Class Distribution of Pine Assets***

The existing resource is mostly mature, or near-mature with >80% of forest estate aged 20 years and above. A further 10% of the forest is aged 7 years and below, and the combination gives a distinctly confined age class distribution between 22 years and 28 years of age. This effect will allow the near-term harvest to be managed to maximise revenue across a variety of possible wood flow profiles subject to the limitations related to forestry infrastructure such as the ramp up in harvesting and forest infrastructure development (roads, landings, culverts and bridges etc).

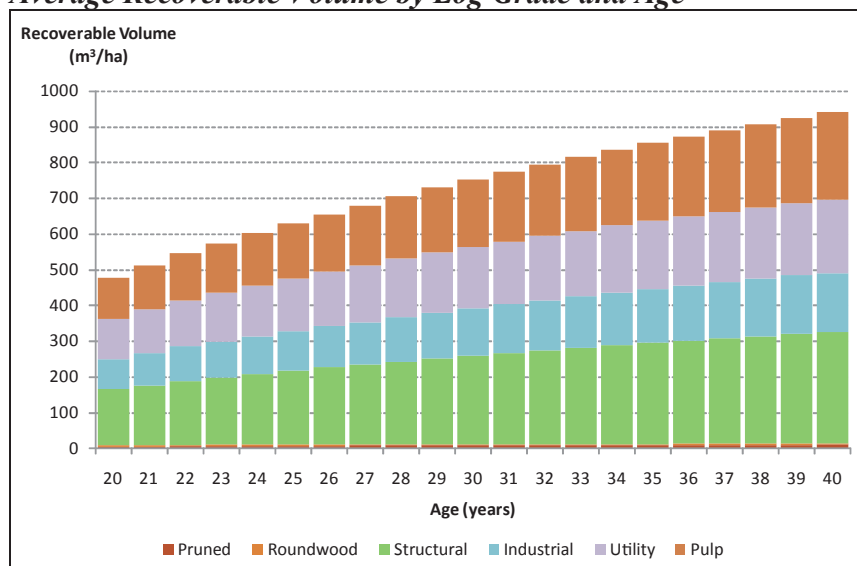
The distribution of the forest area by age-class and forest name is illustrated below.

Area Age Class Distribution by Forest Block



• ***Pine Growth Rate of Recoverable Volume***

The chart below shows the average log grade outturn by age. Because the vast majority of the stands are unpruned then there is very little pruned log within the estate. There is a high level of structural, high grade sawlog forecast from the yield tables. Year-on-year reconciliation of the actual yields against the predicted yields should be undertaken by the forest manager. This process gradually refines the understanding and accuracy of the wood flow forecasts that are underpinned by the individual forest estate yield tables.

Average Recoverable Volume by Log Grade and Age

- Harvesting Age and Years of Projections***

Radiata pine in New Zealand is normally harvested at ages greater than 25 years. There may be situations where younger stands are felled because of operational needs or land tenure restrictions, but on average, age 25 years and older prevails. In the projections, the forest assets are expected to have a harvesting age of 25 to 38 years.

- Valuation log prices***

JLLS has reviewed historic log price information provided by NZX Agrifax Limited (Agrifax), the Ministry of Forestry in New Zealand and a range of local sources. The data comprised of monthly Wharf Gate prices for the range of export log grades shipped via Northport from the Northland region across the period January 2005 to July 2010. These prices for the Northland region have generally been relied upon to develop the log prices used within the valuation for the pricing of export logs. Where domestic log sales are forecast, the prices have been derived from discussions with the local forest manager as to the likely price by grade that may prevail within the market.

- Harvesting Constraints***

As at the Valuation Date, there are no governing laws or regulations in New Zealand that constrain the maximum harvest level of the Plantation Forest Assets.

The Plantation Forest Assets has considerable areas of mature and near-mature forest. Such feature of the estate enables considerable flexibility in the level of possible harvesting rates for the next 10 to 15 years. However, the local infrastructure conditions are yet to provide full logistical access and transportation of the timber to the market.

It is estimated that the infrastructure development will be completed by the end of 2013. Subject to a maximum harvest level of 600,000 m³, JLLS has adopted a conservative ramp up in near-term harvest volume, which forecasts the wood flow volumes for years 2011 and 2020 as follows:

Wood Flow Scenario Harvest Volumes 2011 to 2020

Calendar Year	Wood Flow (m³)
2011	220,000
2012	350,000
2013	500,000
2014 (with full transportation access)	600,000
2015 (with full transportation access)	600,000
2016 (with full transportation access)	600,000
2017 (with full transportation access)	600,000
2018 (with full transportation access)	600,000
2019 (with full transportation access)	600,000
2020 (with full transportation access)	600,000

- ***Market Limitations***

The forest estate model considers the capacity of the markets to which the logs are sold. The model caps domestic sales to the local mills in the Northland region at realistic levels. The Northland port facility is relatively unconstrained in its ability to export log volumes to Asian markets. The forest estate model assumes that export quality logs will be shipped to Shanghai via Northport at Marsden Point unless otherwise required to meet any near-term contractual obligations. The Target Group is required to deliver approximately 32,000 m³ of pulp logs to New Zealand customer in 2011 and 2012, and this market constraint has been considered within the forest estate model.

- ***Direct Silviculture Costs***

The silviculture costs used in the valuation are based on the costs that are likely to be achieved by the forest manager in a competitive tendering process. These costs include over sowing, land preparation, aerial desiccation, fertilizing and thinning of the trees. As operations within the forest increase in scale, further actual operating cost data will become available for future consideration and benchmarking.

- ***Harvesting Plan***

Each compartment within the Plantation Forest Assets has been mapped and assigned a percentage that can be harvested using a ground based system or cable logging equipment. The forest description applies the relevant unit cost for each system and assigns a weighted average cost for logging and loading to each compartment within the forest. These costs are solely logging and loading costs, and exclude all other production costs, harvest planning and supervision costs which are accounted for as indirect selling and general administrative costs.

- *Capital Expenditure*

The civil engineering and road construction costs are based on the cash cost of constructing and maintaining the necessary infrastructure. The infrastructure expenditure has been based on the creation of NZ\$35 million of new capital roads and engineering structures such as bridges and culverts, with a view to providing the long-term infrastructure necessary to ramp-up harvest volumes across the medium term.

WORK PERFORMED BY JLLS

There is no direct method in computing pine volume of the Plantation Forest Assets in New Zealand. JLLS has adopted common industrial standard and carried out the following work in order to compile the actual volume of the Plantation Forest Assets:

JLLS visited the Plantation Forest Assets in December 2010 and January 2011 and as part of that process visited the current areas of harvesting operations, reviewed the current forest infrastructure development, sample checked the conditions of the forestry assets, queried against information provided by the Company. JLLS also undertook a guided tour by the Target Group's forest manager (Northland Forest Managers (1995) Limited) of the main Opouteke block of the resource as well as the forest blocks that will contribute the majority of the near-term wood flow from the estate. JLLS has reviewed and relied upon the forest description prepared as part of the valuation process, and that the forest description contains all the data and assumptions that has been collected and compiled from the estate over its lifetime of forest measurement and inventory data collection.

In New Zealand, forest resource assessment is routinely undertaken at various stand ages from the time that a forest stand is planted until the time that it is harvested. Forest owners and managers use these forest inventory data to refine the yield tables and log product outturn predictions expected from the harvest of forest stands. In addition, when the forest is harvested, the actual volumes that are recovered are recorded and these "actual" measurements are passed back into the yield forecasting and yield table generation processes undertaken by the forest manager so that further refinement of the "expected" yield is achieved. We have concluded that the Plantation Forest Assets' forest growth, yield and wood flow forecasting processes are typical of other directly comparable plantation forests in New Zealand. We have reached this conclusion based on our own observations and research, as well as discussions with the forest industry consultant Mr. Simon Walker ("SW") who is a full member of the New Zealand Institute of Forestry (NZIF), holds a Bachelor of Forestry Science (Hons) and a Master of Finance (Hons), and has over 15 years experience as an advisor to the global forest products industry including many international financial institutions and timberland investment management organisations.

We also understand that there have been Permanent Sample Plots ("PSP") maintained within the forest for the purpose of measuring the actual growth of the forest estate as it develops, and that the PSP maintenance process within Mangakahia Forest is consistent with wider industry practice undertaken in New Zealand and other Southern hemisphere softwood growing regions. Regular mid-rotation and pre-harvest inventories have also been undertaken by the forest managers of the Plantation Forest Assets.

JLLS has reviewed the Plantation Forest Assets forest description (the “Forest Description”), which contains all the stand records for the forest, including the detailed yield tables that outline the expected recoverable volumes by log product for each stand. These yield tables have been developed over time by the previous forest owners and managers of the Target Group. JLLS has selectively reviewed and reconciled the actual yield being harvested and recovered from the forest estate during 2010 and early 2011, representing approximately 35,000 m³. We can confirm that these harvesting data, which were prepared from the actual operational records of 3rd party harvesting contractors, are largely in alignment with the growth and yield data detailed in the Forest Description that JLLS has relied on to prepare the valuation as set out in this report.

JLLS has reviewed the operation with the forest manager of the Target Group and referred to the opinion from the relevant expert in this valuation exercise. JLLS has consulted to the expert consultant regarding the reasonableness of the assumptions and financial information provided by the Company, as well as inspecting the overall health of the Plantation Forest Assets. JLLS has estimated the future cash flow generated by the sales of the Plantation Forest Assets. In addition, we have assumed the operating and management procedures are consistent with the past and can achieve the forecast operational and financial performances.

DISCOUNT RATE

In determining the discount rate for the Plantation Forest Assets, we have taken into account a number of factors including the current market condition and the underlying inherent risks. These risk factors have been considered in determining the appropriate discount rate for the valuation.

When evaluating the appropriate discount rate, we have taken into account a number of factors including the current market condition and the underlying inherent risks. These risk factors have been considered in determining the appropriate discount rate for the valuation. When evaluating the appropriate discount rate, we have used the Weighted Average Cost of Capital (WACC) approach. This recognizes the weighted average cost of debt-funded capital and equity capital. In the assessment of the appropriate return on equity capital, Capital Asset Pricing Model (CAPM) was employed. JLLS has deployed a risk free rate of 5.91% (being the average yield on long-term ten-year New Zealand Government Stock for the 15 trading days prior to and including 24 December 2010), a tax-adjusted market risk premium of 7.25% (with reference to historical estimates of the New Zealand market risk premiums), beta of 0.55 in the calculation of CAPM. Due to insufficient comparables that are publicly available in New Zealand, we have referred to four Australian forestry companies, Forest Enterprises Australia, Gunns, Willmott Forests and TFS Corporation.

The following table summarizes the calculation of discount rate:

Parameter	Point estimate
Risk free rate	5.91%
Aggregate tax rates for investors on debt	28%
Asset Beta	0.550
Tax Adjusted Market Risk Premium	7.25%
Cost of equity	9.24%
Cost of debt	
Debt margin	3.00%
Cost of debt pre tax	8.91%
Corporate tax rate	28%
WACC	
Debt to Value ratio	20%
Equity to Value ratio	80%
WACC (nominal)	8.7%
Inflation rate	2.25%
WACC (real post-tax)	6.3%
Tax Rate	28%
WACC (real pre-tax)	8.7%
Specific Risk	2.3%
Adjusted WACC (real pre-tax)	11%

Based on our investigations and references, we have deployed a discount rate of 11%.

SENSITIVITY ANALYSIS

A sensitivity analysis was prepared to project the results based on the change of discount rate. The following table summarizes the fair values of the Plantation Forest Assets as at the Valuation Date:

Existing Plantation Forest Assets as at 31 December 2010	NZ\$ million
9%	91.2
10%	86.0
11%*	80.0
12%	76.9
13%	72.9

* Such rate or scenario is adopted for the valuation.

VALUATION COMMENTS

The valuation of the subject assets requires consideration of all relevant factors affecting the operation of the business and its ability to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

- the nature of the business;
- the physical conditions of the subject assets and the economic outlook of the business in general;
- the operational contracts and agreements in relation to the business;
- the projected operating results, and;
- the financial and business risk of the agricultural operation including the continuity of income and the projected future results.

The conclusion of value is based on accepted valuation procedures and practices promulgated in the International Valuation Standards that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. International Valuation Standards are the valuation standards promulgated by the International Valuation Standards Council. These standards lay down the valuation principles and methodologies for many types of tangible and intangible assets and businesses and have been commonly adopted or recognised by many valuation institutes, user groups or financial regulators around the world. Further, the assumptions and consideration of such matters are inherently subject to significant business, economic and natural environment uncertainties and contingencies, many of which are beyond the control of the Target Group and Jones Lang LaSalle Sallmanns.

OPINION OF VALUE

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the estimated fair values of the Plantation Forest Assets as at the Valuation Date are reasonably stated at NZ\$80 million (or HK\$485.16 million).

Yours faithfully,

For and on behalf of

Jones Lang LaSalle Sallmanns Limited

Simon Ming Kit Chan

FCPA, FCPA(Aust), CIM Member, IACVA member

Director

Note: Simon Ming Kit Chan is the fellow members of Hong Kong Institute of Certified Public Accountants and Australian Society of Certified Public Accountants, and the member of Canadian Institute of Mining, Metallurgy and Petroleum and the member of the International Association of Consultants, Valuators and Analysts. Simon has provided a wide range of valuation services to numerous listed companies in Hong Kong, China, Singapore and the United States. The valuation services provided include firm valuation, equity valuation, financial instrument valuation intangible assets valuation and biological assets valuation including trees, livestock, orchard farm valuation, etc. Simon has prior experiences in performing valuation for similar plantation forestry assets.

II. LETTERS**A. Letter from the reporting accountants**

The following is the text of a letter received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, in respect of the plantation forest assets valuation report of the Target Group as set out in Section I of Appendix V of this Circular.



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

11 March 2011

The Board of Directors
Greenheart Group Limited
16/F, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

We have performed the work described below, in respect of the arithmetical accuracy of the calculations of the discounted cash flow forecast (hereinafter referred to as the “Underlying Forecast”) underlying the plantation forest assets (the “Plantation Forest Assets”) valuation dated 11 March 2011 prepared by Jones Lang LaSalle Sallmanns Limited for inclusion in the shareholders’ circular of Greenheart Group Limited (the “Company”) dated 11 March 2011 (the “Circular”). The Underlying Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is solely the responsibility of the Directors of the Company to prepare the Underlying Forecast. The Underlying Forecast has been prepared using a set of assumptions (the “Assumptions”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors.

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculations of the Underlying Forecast and to present our conclusion solely to you, as a body, for the purpose of reporting under paragraph 14.62(2) of the Listing Rules and for no other purpose. We are not reporting on the appropriateness and validity of the bases and Assumptions on which the Underlying Forecast are based and our work does not constitute any valuation of the Plantation Forest Assets. The

Underlying Forecast does not involve the adoption of accounting policies. The Assumptions used in the preparation of the Underlying Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than for a reasonable assurance engagement, and that therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

BASIS OF CONCLUSION

We conducted our work in accordance with Hong Kong Standards on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of checking the arithmetical accuracy of the calculations and the Underlying Forecast prepared based on the Assumptions made by the Directors of the Company. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the Assumptions made by the Directors of the Company. Our work does not constitute any valuation of the Plantation Forest Assets.

CONCLUSION

Based on our work described above, nothing has come to our attention that causes us to believe that the Underlying Forecast, so far as the arithmetical accuracy of the calculations of the Underlying Forecast is concerned, has not been properly compiled on the basis of the Assumptions made by the Directors of the Company.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

B. Letter from the independent financial adviser

The following is the texts of a letter received from Haitong International Capital Limited, Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the plantation forest assets valuation report of the Target Group as set out in section I of Appendix V of this circular.



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

11 March 2011

Greenheart Group Limited
16/F, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Dear Sirs,

As the Company's Independent Financial Advisor on, among other things, the Sale and Purchase Agreement in relation to the acquisition of the entire issued share capital of the Target Co, together with the Shareholder's Loan at the Consideration, we refer to the independent valuation report prepared by Jones Lang LaSalle Sallmanns Limited in relation to the appraisal of the fair market value of a radiata pine plantation located in New Zealand as at 31 December 2010 (hereinafter referred to as the "**Asset Valuation**") as set out in section I of Appendix V to the circular issued by the Company dated 11 March 2011.

For the sole purpose of confirming that the directors of the Company have made the Asset Valuation after their due and careful enquiry, we have discussed with you the bases and assumptions provided by the Company and upon which the Asset Valuation has been prepared. We have also considered the letter from Ernst & Young, Certified Public Accountants, to you regarding the accounting policies and calculations upon which the Asset Valuation has been made.

On the basis of our discussions with you mentioned above as well as the letter from Ernst & Young, we confirm that you have made the Asset Valuation, for which you as directors of the Company are solely responsible, after due and careful enquiry.

Yours faithfully,

For and on behalf of

Haitong International Capital Limited

Derek C.O. Chan

Managing Director

Terry Chu

Executive Director

APPENDIX VI PROPERTY VALUATION REPORT OF THE TARGET GROUP

The following is the text of a letter, and valuation certificate, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 31 December 2010 of the property interest of the Group.



Jones Lang LaSalle Sallmanns Limited
6/F Three Pacific Place
1 Queen's Road East Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

仲量聯行西門有限公司
香港皇后大道東1號太古廣場三期6樓
電話 +852 2169 6000 傳真 +852 2169 6001
牌照號碼: C-030171

11 March 2011

The Board of Directors
Greenheart Group Limited

Dear Sirs,

Re: Valuation of various parcels of forest land located at Mangakahia Forest, Northland, North Island, New Zealand (the "Property")

In accordance with your instructions to provide an opinion of the market value of the captioned property, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value of the property interest as at 31 December 2010 (the "date of valuation").

Our valuation of the property interest represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion". On your instructions we have considered the value of unimproved land only, and have excluded standing timber, roads and other improvements.

We have valued the property interest by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to the current market transactions about the sale of another forest land in New Zealand.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been provided with copies of title documents relating to the property interest and have made searches at the New Zealand Registrar General of Land.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the perimeter of the subject land from ground level and from ariel reconnaissance. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any organic development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. We are not able to report whether the property is free of rot, infestation or any other defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in New Zealand Dollars (NZD).

Our valuation certificate is attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Sallmanns Limited

Paul Lougher Brown
B.Sc. FRICS FHKIS
Chief Valuation Adviser

Gilbert Che Hong Chan
MRICS MHKIS RPS(GP)
Director

Note: Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong, the United Kingdom as well as property valuation experience in the Asia-Pacific region and New Zealand.

Gilbert C.H. Chan is a Chartered Surveyor who has 19 years' experience in the valuation of properties in the PRC and 18 years of property valuation experience in Hong Kong, the United Kingdom as well as property valuation experience in Australia and Oceania - Papua New Guinea.

VALUATION CERTIFICATE

Property interest to be acquired by the Group in New Zealand

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at
			31 December 2010 NZD
Various parcels of forest land located at Mangakahia Forest Northland North Island New Zealand	The property comprises 12 parcels of improved forest land in the Mangakahia Forest area, to the north-west of Whangarei town. The property forms dispersed area of mature radiate pine trees, on ground ranging from undulating (semi-agricultural) to steeply sloping. The area is generally interspersed with well-defined forest tracks, suitable for vehicles. The property has a total gross site area (see note 3) of approximately 12,670.5 ha and net stocked area (see note 4) of approximately 10,632.3 ha. The property is held under title of Fee Simple Estate (see note 5).	The property is mature standing timbers.	15,407,000

Notes:

1. The registered owner of the property is Mangakahia Forest Land Limited.
2. Our valuation is of unimproved land only and excludes the standing timber and other improvements.
3. Gross site area is the total peripheral area encompassed by the legal estate comprising the property.
4. Net stocked area is that area within the site boundary (gross site area) on which the subject trees are grown (stocked).
5. Fee Simple Estate is one in which the owner is entitled to entire property, with unconditional power of disposition. Such estate is unlimited as to duration, disposition, and descendibility.

APPENDIX VI PROPERTY VALUATION REPORT OF THE TARGET GROUP

4. The breakdown area and titles of each block of the property are tabulated as follows:

Forest Lot Number	Land Title Document Number	Gross Site Area under Land Title Document (ha)	Net Stocked Area (ha)
Block 1	67D/788	442.1	429.5
Block 3b	101D/807	79.588	224.7
	101D/808	37.35	
	96D/653	174.056	
Block 3e	1011/133	18.8128	711
	14B/1073	215.9503	
	171/239	204.458	
	58D/593	293.5142	
	65B/955	1.0303	
	M/lease 70A/271	66.11	
	857/42	0.2555	
Block 4a & 4b	107C/490	183.3735	411.7
	1057/275	40.3522	
	49A/114	219.5051	
Block 6	60D/183	270.772	285
	63D/427	39.5350	
	85A/117	1.0572	
Block 8a, 8b & 15	26C/962	132.5348	871
	713/88	229.659	
	73B/563	191.43	
	74A/368	175.09	
	8A/893	192.6303	
	75C/229	223.9052	
Block 10	57C/535	458.82	408.5
Block 12	65D/720	453.6646	337.2
Block 20	71A/811	358.7	630.7
	78A/281	321.0295	
Block 23b	77B/92	253.542	514
	77B/95	3.3614	
	879/117	69.3934	
	879/121	55.017	
	879/122	52.5967	
	879/123	52.3361	
	879/124	52.0983	

APPENDIX VI PROPERTY VALUATION REPORT OF THE TARGET GROUP

Forest Lot Number	Land Title Document Number	Gross Site Area under Land Title Document (ha)	Net Stocked Area (ha)
Block A, B, D, E and F	508526	223.508	
	56A/1218	59.731	
	59A/463	94.85	
	59A/464	13.81	
	59/66	116.62	
	59D/534	13.8	
	61C/751	341.9	
	61C/754	126.86	
	67B/245	8.5186	
	67B/246	85.9754	
	67B/248	144.0746	
	72C/710	155.09	
	72C/716	294.25	
	72C/719	263.76	
	52D/593	658.9311	
Block A, B, D, E and F	53A/494	246.2435	5,809
	67B/231	3.5789	
	67B/232	5.4126	
	67B/235	42.0367	
	67B/237	2.213	
	67B/238	295.0158	
	67B/239	270.5399	
	60B/240	173.2054	
	67B/241	220.0477	
	67B/243	205.1578	
	1111/149	19.0202	
	1549/19	43.6023	
	264/145	18.2108	
	271/161	124.2384	
	42C/877	186.8888	
	42C/885	43.5467	
	54C/1273	89.4830	
	55A/1190	177.8247	
	56A/292	110.8838	
	56B/1198	449.6723	
	56B/1199	277.2694	
	57B/850	359.7763	
	61C/407	196.48	
	781/161	666.4488	
	78D/772	3.1034	
	7B/520	272.4545	
	85A/85	2.805	
Total		12,670.4668	10,632.3

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2. SHARE CAPITAL

Assuming there is no change in the number of Shares in issue from the Latest Practicable Date up to the Completion Date and assuming the maximum number of Consideration Shares are issued, the authorized and issued share capital of the Company (a) as at the Latest Practicable Date; and (b) upon the issue of Consideration Shares as follows:

(a) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>15,000,000,000</u>	Shares	<u>150,000,000</u>
<i>Issued and fully paid:</i>		
<u>682,649,152</u>	Shares	<u>6,826,491.52</u>

(b) Upon the issue of Consideration Shares:

<i>Authorised:</i>		<i>HK\$</i>
<u>15,000,000,000</u>	Shares	<u>150,000,000</u>
<i>Issued and fully paid:</i>		
682,649,152	Existing Shares	6,826,491.52
144,300,000	Consideration Shares to be issued and allotted	1,443,000.00
<u>826,949,152</u>		<u>8,269,491.52</u>

3. 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 they were 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	2,811,145	0.412
	Family interest (<i>Note 1</i>)	75,000	0.011
Wong Kin Chi	Beneficial owner	1,011,145	0.148
Tong Yee Yung, Joseph	Beneficial owner	711,145	0.104
	Family interest (<i>Note 2</i>)	180,000	0.026
Chan Tak Yuen, Allen	Beneficial owner	6,811,490	0.998
William Judson Martin	Beneficial owner	6,811,490	0.998
Simon Murray	Beneficial owner	1,096,000	0.161
Wong Che Keung, Richard	Beneficial owner	891,145	0.131

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

Note 2: These 180,000 Shares were jointly owned by Mr. Tong Yee Yung Joseph and his spouse.

Interests in the shares of the associated corporations (within the meaning of Part XV of the SFO) of the Company

Name of Director	Capacity	Name of the associated corporation	Number of shares held
Chan Tak Yuen, Allen	Beneficial owner and interest of controlled corporation (<i>Note 1</i>)	Sino-Forest	7,854,743
William Judson Martin	Beneficial owner and family interest (<i>Note 2</i>)	Sino-Forest	232,175
Simon Murray	Interest of controlled corporation (<i>Note 3</i>)	Sino-Forest	159,553

Note 1: 1,488,000 shares out of 6,580,753 shares are held by Mr. Chan Tak Yuen and the remaining 5,092,753 shares out of 6,580,753 shares are held by ADS Holdings (BVI) Ltd. to which Mr. Chan Tak Yuen controls 57.5% of such interest. Mr. Chan Tak Yuen also has certain derivative interests in Sino-Forest, details of which are as follows:–

Exercise Period	Exercise Price	Number of shares
15/08/2006 – 15/08/2011	CAD5.500	750,000
04/06/2007 – 04/06/2012	CAD13.150	250,000
31/03/2009 – 31/03/2014	CAD8.010	209,528
13/05/2010 – 13/05/2015	CAD19.560	64,462

Note 2: 30,000 shares are held by spouse of Mr. William Judson Martin and 5,173 deferred shares are held by Mr. William Judson Martin. Mr. William Judson Martin also has certain derivative interests in Sino-Forest, details of which are as follows:–

Exercise Period	Exercise Price	Number of shares
25/08/2006 – 25/08/2011	CAD4.360	14,814
04/06/2007 – 04/06/2012	CAD13.150	153,334
21/06/2010 – 21/06/2015	CAD17.410	28,854

Note 3: These shares are held by Forest Operations Limited which Mr. Simon Murray controls 100% of such interest.

(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 %
Chan Tak Yuen Allen	24/08/2010	HK\$2.180	24/08/2010 – 23/08/2015	5,480,000	0.803
	28/12/2010	HK\$2.500	28/12/2010 – 27/12/2015	1,331,490	0.195
William Judson Martin	24/08/2010	HK\$2.180	24/08/2010 – 23/08/2015	5,480,000	0.803
	28/12/2010	HK\$2.500	28/12/2010 – 27/12/2015	1,331,490	0.195
Hui Tung Wah Samuel	16/04/2007	HK\$0.460	17/04/2007 – 21/3/2012	50,000	0.007
	14/06/2007	HK\$1.360	15/06/2007 – 21/3/2012	300,000	0.044
	24/10/2007	HK\$1.744	25/10/2007 – 21/3/2012	200,000	0.029
	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014	500,000	0.073
	28/12/2010	HK\$2.500	28/12/2010 – 27/12/2015	681,145	0.100
Simon Murray	24/08/2010	HK\$2.180	24/08/2010 – 23/08/2015	1,096,000	0.161
Wong Kin Chi	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012	30,000	0.004
	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014	150,000	0.022
	28/12/2010	HK\$2.500	28/12/2010 – 27/12/2015	681,145	0.100
Wong Che Keung Richard	16/04/2007	HK\$0.460	17/04/2007 – 21/03/2012	30,000	0.004
	14/06/2007	HK\$1.360	15/06/2007 – 21/03/2012	50,000	0.007
	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012	30,000	0.004
	05/08/2009	HK\$1.650	05/08/2009 – 04/08/2014	100,000	0.015
	28/12/2010	HK\$2.500	28/12/2010 – 27/12/2015	681,145	0.100
Tong Yee Yung Joseph	24/10/2007	HK\$1.744	25/10/2007 – 21/03/2012	30,000	0.004
	28/12/2010	HK\$2.500	28/12/2010 – 27/12/2015	681,145	0.100

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest or short position 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 they were 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.

(b) Other interests

As at the Latest Practicable Date,

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

4. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to any Director or the 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	Interest of controlled corporation (<i>Note 1</i>)	399,024,150	–	58.45
Sino-Capital	Beneficial owner (<i>Note 1</i>)	399,024,150	–	58.45
General Enterprise Management Services Limited	Interest of controlled corporation (<i>Note 2</i>)	7,000,000	97,077,922	15.25
Development Bank of Japan Inc.	Interest of controlled corporation (<i>Note 3</i>)	–	97,077,922	14.22
Asia Resources Fund Limited	Interest of controlled corporation (<i>Note 4</i>)	–	97,077,922	14.22

Notes:

1. As at the Latest Practicable Date, Sino-Capital is a wholly-owned subsidiary of Sino-Forest, Sino-Forest is deemed to be interested in the Shares in which Sino-Capital is interested by virtue of the SFO. As at the Latest Practicable Date, Sino-Capital held 399,024,150 Shares, representing approximately 58.45% of the issued share capital of the Company. Both Mr. Chan Tak Yuen and Mr. William Judson Martin, the Directors, are directors of Sino-Forest.
2. As at the Latest Practicable Date, General Enterprise Management Services (International) Limited (“GEMS”) owned 23.26% of Asia Resources Fund Limited and was a person in accordance with whose directions Asia Resources Fund Limited is 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. Mr. Simon Murray is a director of Asia Resources Fund Limited and General Enterprise Management Services Limited.
3. As at the Latest Practicable Date, Development Bank of Japan Inc. owned 46.51% 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 the SFO.
4. As at the Latest Practicable Date, 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 the 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.

None of the Directors is a director or employee of a company which has 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.

5. 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 Enlarged Group (excluding contracts expiring or determinable by the relevant Group member within one year without payment of compensation other than statutory compensation).

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company and their respective associates had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Enlarged Group was engaged in any litigation or claim of material importance to the Enlarged Group (taken as a whole) and no litigation or claim of material importance to the Enlarged Group (taken as a whole) is known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

8. EXPERT AND CONSENT

The following are the qualifications of the experts whose statements have been included in this circular:

Name	Qualification
Haitong International Capital Limited	A licensed corporation permitted to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
Ernst & Young	Certified public accountants
Jones Lang LaSalle Sallmanns Limited	Certified professional surveyors and valuers

The above experts have given and have not withdrawn their written consent to the issue of the circular with the inclusion of their letter or opinion or advice and the reference to their names in the form and context in which they appear.

As at the Latest Practicable Date, the above experts are not beneficially interested in the share capital of any member of the Enlarged Group nor do they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group nor do they have any interest, either direct or indirect, in any assets which have been, since 31 December 2009 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

9. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary and usual course of business) were entered into by members of the Enlarged Group within two years immediately preceding the Latest Practicable Date:

- (a) the Sale and Purchase Agreement;
- (b) the Master Sale and Purchase Agreement;
- (c) a supplemental loan agreement dated 22 November 2010 and entered into between Greenheart Suriname and Silver Mount Group Limited in relation to the grant of HK\$215 million loan facility;
- (d) a subscription agreement dated 22 June 2010 and entered into between the Company and Greater Sino Holdings Limited (“CN Subscriber”) in relation to the subscription of the new convertible note(s) in an aggregate principal amount of US\$25 million to be issued by the Company to the CN Subscriber for a total consideration of US\$24.75 million;
- (e) a share subscription agreement dated 22 June 2010 and entered into between the Company and Sino-Capital, in relation to the subscription of 230,000,000 new shares with par value of HK\$0.01 each in the share capital of the Company by Sino-Capital for a total consideration of HK\$418.6 million;
- (f) a supplemental deed poll dated 3 October 2009 and executed by the Company, Silver Mount Group Limited and Loyal Treasure Management Limited in relation to the alterations to the conditions of the HK\$227,000,000 four per cent. (4%) per annum secured convertible bonds issued by the Company;
- (g) a shareholders’ loan agreement for the amount of US\$52,000,000 dated 20 October 2010 and entered into between NZ Holdco and Sino-Forest, as supplemented by the supplemental loan agreement between NZ Holdco and Sino-Forest dated 30 December 2010; and
- (h) the NZ SPA in relation to the sale and purchase of all of the issued share capital of MFVL for a total consideration of US\$67,792,223.

10. GENERAL

- (a) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is at 16th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The secretary of the Company is Ms. Tse Nga Ying, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal office of the Company at 16/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 memorandum of association and bye-laws of the Company;
- (b) the material contracts referred to in the section headed "Material Contracts" in this Appendix;
- (c) the letter from the Board, the text of which is set out on pages 6 to 37 of this circular;
- (d) the letter from Haitong International Capital Limited, the text of which is set out on pages 40 to 69 of this circular;
- (e) the written consents from Haitong International Capital Limited, Ernst & Young and Jones Lang LaSalle Sallmanns Limited referred to in paragraph 8 of this appendix;
- (f) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 38 to 39 of this circular;
- (g) the annual reports of the Company for each of the three years ended 31 December 2007, 2008 and 2009;
- (h) the interim report of the Company for the six months ended 30 June 2010;
- (i) the unaudited results of the Company for the nine months ended 30 September 2010;
- (j) the accountants' reports of the Target Group and the MFVL Group, the text of which is set out in section 1 of each of Appendices II and III to this circular, respectively;

- (k) the accountants' report on the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the text of which is set out in section II of Appendix IV to this circular;
- (l) the valuation reports of plantation forest assets and property prepared by Jones Lang LaSalle Sallmanns Limited, the text of which is set out in Appendices V and VI to this circular, respectively;
- (m) the circular published by the Company on 13 July 2010 in relation to (1) the connected transaction constituted by the issue of 230,000,000 new Shares of par value of HK\$0.01 each in the capital of the Company to a connected person; (2) the issue of new convertible notes in an aggregate principal amount of US\$25 million by the Company to the CN Subscriber; and (3) the application for a whitewash waiver;
- (n) the circular published by the Company dated 30 November 2010 in relation to the continuing connected transactions with Greenheart Suriname; and
- (o) this circular.

NOTICE OF SGM



GREENHEART GROUP LIMITED

綠森集團有限公司*

(formerly known as “Omnicorp Limited”,

“兩儀控股有限公司”*)

(Incorporated in Bermuda with limited liability)

(Stock Code: 94)

NOTICE IS HEREBY GIVEN that the SGM of Greenheart Group Limited (the “**Company**”) will be held at Oasis Room, 8/F, Renaissance Harbour View Hotel Hong Kong, No. 1 Harbour Road, Wanchai, Hong Kong at 10:00 a.m. on 28 March 2011 for the purpose of considering and, if thought fit, passing with or without amendments the following resolutions as ordinary resolutions of the Company. Terms defined in the circular of the Company dated 11 March 2011 bear the same meanings herein unless the context otherwise requires.

ORDINARY RESOLUTIONS

1. “THAT

- (a) the Sale and Purchase Agreement entered into between Sino-Capital, the Company and Sino-Forest (Copy of which has been produced to the SGM marked “A” and signed by the chairman of the SGM for purpose of identification), the terms and conditions thereof and transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares at a price equal to the Issue Price per Consideration Share to Sino-Capital) be and are hereby approved, confirmed and ratified;
- (b) 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 Sale and Purchase Agreement, variation or modification of the terms and conditions of the Sale and Purchase Agreement upon such terms and conditions as he/they may think fit.”

2. “THAT

- (a) the Master Sale and Purchase Agreement entered into between Green Source and Sino-Wood (Copy of which has been produced to the SGM marked “B” and signed by the chairman of the SGM for purpose of identification), the terms and conditions thereof and transactions contemplated thereunder and the Proposed Annual Caps be and are hereby approved, confirmed and ratified;

* for identification purpose only.

NOTICE OF SGM

- (b) 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 Master Sale and Purchase Agreement and the Proposed Annual Caps, variation or modification of the terms and conditions of the Master Sale and Purchase Agreement upon such terms and conditions as he/they may think fit.”

By Order of the Board
Greenheart Group Limited
Tse Nga Ying
Company Secretary

Hong Kong, 11 March 2011

*Head office and Principal place of
business in Hong Kong:*
16th Floor,
Dah Sing Financial Centre,
108 Gloucester Road,
Wanchai, Hong Kong

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
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 SGM 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.