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Willie International Holdings Limited

威利國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

**DISCLOSEABLE TRANSACTION
ACQUISITION OF 100% INTEREST IN ALLIED LOYAL**

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DEFINITIONS

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

“Acquisition”	the acquisition pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 28 June 2007 entered into between the Vendor and the Purchaser in relation to sale and purchase of the Sale Shares and the Shareholder’s Loan of Allied Loyal
“Allied Loyal”	Allied Loyal International Investments Limited, a company incorporated in the British Virgin Islands
“Board”	the board of Directors
“CCSL”	China Capital Strategy Limited (美信國銀資本策略有限公司), a company incorporated in Hong Kong. It is ultimate beneficially owned by a high net worth family in Asia and Mr. Wang Sing as 80% and 20% respectively. Mr. Wang Sing is the director of CCSL and is the brother of the Director, Mr. Wang Lin. To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, CCSL and its controlling owner is not connected with any of the Directors, chief executive or substantial Shareholder(s) of the Company or its subsidiaries or their respective associate(s)
“Company”	Willie International Holdings Limited, a company incorporated in Hong Kong with limited liability and the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition Agreement
“Concessionary Rights and Interests of Forests”	forestry lands use rights (林地使用權) and forestry trees entitlement (林木所有權) of the Forests granted by 雲南省普洱市翠雲區人民政府
“Consideration”	HK\$136 million
“Director(s)”	director(s) of the Company
“Forests”	three forestry sites in Simao District (思茅區), Puer City (普洱市), Yunnan Province, the PRC
“GDP”	gross domestic product
“Group”	the Company, its subsidiaries and its associated company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	6 July 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Purchaser”	Richful Zone International Limited (豐域國際有限公司), a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“Sale Shares”	50,000 shares, representing 100% of the issued capital of Allied Loyal
“Share(s)”	share(s) of a nominal value of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shareholder’s Loan”	the loan due from Allied Loyal to the Vendor as at Completion, which shall not be less than HK\$33,530,890 (outstanding amount as at 25 June 2007)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Harvest Source Holdings Limited (豪源集團有限公司), a company incorporated in the British Virgin Islands
“%”	per cent.

LETTER FROM THE BOARD



Willie International Holdings Limited

威利國際控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

Executive Directors

Mr. Chuang Yuecheng, Henry
Mr. King Phillip
Mr. Lo Kan Sun
Mr. Wong Ying Seung, Asiong
Mr. Wang Lin

Registered Office and Head Office

32/F, China United Centre
28 Marble Road
North Point
Hong Kong

Independent Non-executive Directors

Mr. Nakajima Toshiharu
Ms. Lin Wai Yi
Mr. Liu Jian
Mr. Shum Ming Choy
Mr. Yau Yan Ming, Raymond

11 July 2007

To the Shareholders,

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION ACQUISITION OF 100% INTEREST IN ALLIED LOYAL

INTRODUCTION

The Board announced that the Purchaser entered into Acquisition Agreement with the Vendor on 28 June 2007, pursuant to which the Purchaser has agreed to purchase, and the Vendor has agreed to sell the entire issued share capital of Allied Loyal and the Shareholder's Loan at a total consideration of HK\$136 million. The Acquisition constitutes a discloseable transaction for the Company under Rule 14.06 of the Listing Rules.

The main purpose of this circular is to provide you with further particulars of the Acquisition.

LETTER FROM THE BOARD

THE ACQUISITION AGREEMENT

Date: 28 June 2007

- Parties:
- 1) Richful Zone International Limited (豐域國際有限公司), an indirect wholly-owned subsidiary of the Company and an investment holding company incorporated in the British Virgin Islands, being the Purchaser; and
 - 2) Harvest Source Holdings Limited (豪源集團有限公司) being the Vendor. The Vendor is an investment holding company incorporated in the British Virgin Islands with limited liability. To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s) are not connected with any of the Directors, chief executive or substantial Shareholder(s) of the Company or its subsidiaries or their respective associate(s)

Interest to be acquired:

- 1) Sale Shares : 50,000 shares of USD1.00 each in the capital of Allied Loyal, representing 100% of the issued share capital of Allied Loyal, the principal asset of Allied Loyal is 50% of the Concession Rights and Interests of Forests in Simao District (思茅區), Puer City (普洱市), Yunnan Province, the PRC
- 2) Shareholder's Loan : The loan due from Allied Loyal to the Vendor as at Completion, which shall not be less than HK\$33,530,890

Consideration:

The Consideration for the Acquisition is HK\$136 million, which will be satisfied by the Company in paying the Vendor or its nominee in cash through utilizing the Group's internal resources upon Completion.

The Consideration was arrived at after arm's length negotiations between the Company and the Vendor by reference to the followings:

- (i) the valuation of Concession Rights and Interests of Forests. Pursuant to the opinion of the independent qualified appraiser that as of the date of valuation. The independent qualified appraiser adopted market approach. The market approach considered prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. The market value of land use rights and inventory of stock of trees for the Forests, as part of a going-concern

LETTER FROM THE BOARD

business of CCSL, is reasonably stated by the amounts of RMB298 million (approximately equivalent to HK\$306 million at prevailing exchange rate at HK\$1 to RMB0.9752). In other words, Allied Loyal's 50% of Concession Rights and Interests of Forests should be valued at RMB149 million (approximately equivalent to HK\$153 million at prevailing exchange rate at HK\$1 to RMB0.9752); and

- (ii) Allied Loyal has entered into a transfer agreement (特許協議轉讓合同) with CCSL. Allied Loyal will share 50% of distributable profits of the Forests and CCSL will be responsible for all the budget, management, and provision of the working capital requirement for operation and development of the Forests. Allied Loyal will not participate in the daily operation of the Forests. CCSL will charge Allied Loyal an annual management fee at a lower of the distributable profits distributed to Allied Loyal or 8% of the annual turnover of the Forests. In the event that there are nil distributable profits to Allied Loyal, no annual management fee will be charged. Moreover, Allied Loyal is not required to contribute any further capital commitment to CCSL for operating the Forests.

The Consideration represents a discount of approximately 11% to the 50% of aforesaid valuation amounted to HK\$153 million (equivalent to RMB149 million at prevailing exchange rate at HK\$1 to RMB0.9752).

Conditions of the Acquisition Agreement:

Completion of the Acquisition Agreement shall not take place unless and until the Purchaser shall have been satisfied upon its due diligence investigations on the followings:

- (i) that the management accounts of Allied Loyal are true and accurate as on 25 June 2007 and that is/will be no material adverse change in the financial position of Allied Loyal from 25 June 2007 to the Completion;
- (ii) that the title deeds of Concession Rights and Interests of Forests remain valid and enforceable after the Completion and there is no fact or circumstances rendering any of the title deeds void, invalid illegal or unenforceable;
- (iii) that Allied Loyal has a good and marketable title to 50% of Concession Rights and Interests of Forests; and
- (iv) the warranties set out in the Acquisition Agreement remaining true, accurate and correct in all material respects.

If the conditions shall not be fulfilled on or before 11 July 2007 or such other date as the parties may agree in writing, the Acquisition Agreement shall terminate and the parties shall not have any further claims against each other for costs, damages, compensation or otherwise, save for antecedent breaches.

LETTER FROM THE BOARD

Completion:

Subject to the fulfillment of the conditions set out above, Completion will take place on or before 11 July 2007 (or such other date as may be agreed by the Vendor and the Purchaser).

INFORMATION ON ALLIED LOYAL

Allied Loyal is a limited liability company incorporated under the laws of the British Virgin Islands on 2 January 2007. Allied Loyal is an investment holding company and the principal asset of Allied Loyal is 50% of the Concession Rights and Interests of Forests in Simao District (思茅區), Puer City (普洱市), Yunnan Province, the PRC. Another 50% of the Concession Rights and Interests of Forests is owned by CCSL.

Concession Rights and Interests of Forests comprises three forestry sites form part of two state-owned forests in Simao District (思茅區), Puer City (普洱市), Yunnan Province, the PRC. The logging right of forestry lands is 50 years from 2007 to 2057 with approximately total land area 36,735 Chinese Mu (or 24.5km²). The major species types in the Forests are Simao Pine (思茅松) and oak (橡樹). The timber volume is approximately 227,585m³ with 55,558m³ attributable to Simao Pine (思茅松) and 172,027m³ attributable to oak (橡樹). During the 50 years of logging right, 3 production cycles are feasible.

Since CCSL acquired the Concession Rights and Interests of Forests in this year, so there is no financial figure as at the Latest Practicable Date. Save as the 50% of the Concession Rights and Interests of Forests, Allied Loyal does not have any other business since its incorporation, there is no audited accounts as at the Latest Practicable Date. Based on the unaudited financial statements of Allied Loyal from the date of incorporation to 25 June 2007, the net asset value of Allied Loyal as at 25 June 2007 was approximately HK\$369,110. The net loss for the period from the date of incorporation to 25 June 2007 was approximately HK\$20,890. The net book value of the 50% of Concession Rights and Interests of Forests as at 25 June 2007 was HK\$33,900,000.

Financial Effect on the Acquisition

Upon completion of the Acquisition, the accounts of Allied Loyal will be wholly-owned subsidiary of the Company and will be consolidated with that of the Group. The Acquisition will bring an increase in the Group's non-current assets and but such increase will be offset by a decrease in cash balance. Given the fact that it is premature to quantify the financial effect on the Acquisition on the earnings of the Group. The Directors consider that the Acquisition would not have a material impact on the earnings and assets and liabilities of the Group. The Directors expect that the Acquisition will have a position impact on the earnings of the Group in long run.

Location Description

The Forests are situated in Puer City (普洱市). Puer City (普洱市) is located in the southwest of Yunnan Province, the PRC. In 2006, Yunnan province experienced strong economic growth. GDP growth in 2006 reached above RMB400 billion, up 11.9% year of year from 2005, while GDP per capita attained RMB1,148. Fixed asset investment in Yunnan Province in 2006 totaled RMB222 billion, increased by RMB46.5 billion from 2005, or up 26.5% year of year.

LETTER FROM THE BOARD

Puer City (普洱市) situates at the low latitude plateau South Asia tropics monsoon climatic region and is characterized by low latitude, high temperature, rainy and breeze. The average annual temperature is 17.9°C, the average annual rainfall is 1,517.8mm, and the frost-free period is 315 days a year. There is approximately 4,560,000 mu forestry land in the region with forest coverage 76.9% and it is the most important forestry region in the province.

According to State Forestry Administration (國家林業局), forestry in the PRC has been grown steadily and its total production value increased to RMB846 billion, up 22.7% year of year or increased by RMB156 billion from 2004. In the PRC, the coverage of economic forest was about 21.39 million hectares in 2005 with a total output of 94 million tones (i.e. 132 million m³ in 2005). Capital invested in forestry in 2005 in the PRC was up to RMB47 billion, increased 8.6% year of year. The forestry land in Puer City (普洱市) is amongst the best sites in Yunnan Province producing high quality logs.

Market Overview

There is strong demand for wood products. The current trend in world consumption of all wood products is a gradual shift from North America and Europe to Asia and South America. The PRC is the most significant emerging market. The global change in consumption is mainly driven by the PRC's production of paper and panel to meet its large domestic demand.

The PRC has the world largest population (over 1.3 billion). It is evolving into an emerging market economy and the country has experienced significant growth, with an average annual growth rate in GDP of 8 to 9% over the past 10 years. This economic growth has been driven by low-cost manufacturing and exports, government and foreign investment, and the increasing personal disposable income of consumers. Many vibrant regional economies within the PRC are driving demand for essential resources such as water, electricity, oil, minerals and wood.

There is rapidly growing segment of middle-income consumers. Millions of people are buying or building new homes each year, driving up demand for wood-based, roof and wall framing, flooring, doors, window frames and trim, furniture and interior decoration items.

GENERAL INFORMATION

The Acquisition constitutes a discloseable transaction under Chapter 14.06 of the Listing Rules.

REASONS FOR THE TRANSACTION

The Group is principally engaged in the business of property investment, investment in securities trading, money lending, investing in energy related businesses and acquiring, exploring and developing natural resources.

LETTER FROM THE BOARD

Reference is made to the Company's announcement dated 27 March 2007, in order to clearly identify the Group's focus into energy and natural resources business, and position the Company's financial and bargaining strength when negotiating projects with potential partners or to facilities the Company in making investments whenever opportunities arises, the Company has incorporated a wholly-owned subsidiary in the Cayman Islands, "Willie Resources Incorporated" (威利資源企業公司), as the holding company for the development of the energy and natural resources business. Moreover, the Company has injected HK\$100 million cash as equity and HK\$200 million cash as shareholder's loan into "Willie Resources Incorporated" (威利資源企業公司) to ensure adequate working capital for the investment in energy and natural resources business whenever opportunities arises. The Purchaser is an indirectly wholly-owned subsidiary of "Willie Resources Incorporated" (威利資源企業公司) and will utilize the internal resources of "Willie Resources Incorporated" (威利資源企業公司) for the Acquisition.

In order to increase the competitiveness of the Group, the Directors consider the diversification of business into new areas of high-growth potential will be in the best interest of its Shareholders. The Company takes initiative in identifying business opportunities in new emerging industries that will broaden its revenue sources. The Board considers that (i) there is an increase demand in world consumption of all wood products, especially the PRC market; (ii) there is rapidly growing segment of middle-income consumers in the PRC driving up the demands of wood products; (iii) the Acquisition is supported by the valuation of RMB298 million; (iv) there will be no financial burden and future capital commitment to the Group for the Acquisition and the operation, management and development of the Forests; (v) the Acquisition is an investment that will generate stable distributable profit to the Group in the future; and (vi) with the improvement in technology and efficiency, the timber volume is expected to be higher during the production cycles. The terms of the Acquisition Agreement were arrived at after arm's length negotiations between the Company and the Vendor, and are fair and reasonable, so the Board considers the Acquisition is in the interest of the Group and the Shareholders as a whole.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
By Order of the Board of
Willie International Holdings Limited
Chuang Yueheng, Henry
Chairman



利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Seventh Edition, 2005 (the “IVS”) published by the International Valuation Standards Committee and the HKIS Valuation Standards on Properties, First Edition, 2005 (the “HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”), both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer.

27th Floor
Li Dong Building
No. 9 Li Yuen Street East
Central
Hong Kong

11 July 2007

The Directors
Willie International Holdings Limited
32nd Floor, China United Centre
28 Marble Road
North Point
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of Willie International Holdings Limited (hereinafter referred to as the “Company”) to us, we have investigated and conducted an agreed-upon procedures valuation on the market value of various designated agricultural property assets *i.e. land use rights and inventory of standing trees* (hereinafter referred to as the “Subject Assets” and see Note below), presented to us as owned by China Capital Strategy Limited (hereinafter referred to as “CCSL”), in various locations in Simao District, Puer City, Yunnan Province of the People’s Republic of China (hereinafter referred to as the “PRC” or “China”) as at 26 June 2007 (hereinafter referred to as the “Date of Valuation”) for the Company’s internal management reference purpose and to disclose the same in a circular for the Company’s shareholders’ reference.

Note: According to the International Valuation Guidance Note No.10 published by the International Valuation Standards Committee in the International Valuation Standards, Seventh Edition, 2005, agricultural property assets can be classified as land, structural improvement, plant and machinery (attached or not attached to the land) and biological assets (attached or not attached to the land). Biological assets is defined as a living animal or plant.

We understand that the management of the Company will use our work product as part of its business due diligence and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence, which the management of the Company should conduct in reaching its business decisions regarding the Subject Assets. Our work is designed solely to provide information that will allow the management of the Company to make an informed decision.

INSTRUCTIONS

Our instruction is to investigate and to conduct an agreed-upon procedures appraisal (the word *appraisal* has the same meaning as *valuation* in this report) on the market value of the Subject Assets as part of a going concern business of CCSL for the Company's internal management reference purpose. CCSL, a company incorporated in Hong Kong, acquired the forestry lands use rights (林地使用權) and forestry trees entitlement (林木所有權) of the forests granted by 雲南省普洱市思茅區人民政府 (translated as the People's Government of Simao District of Puer City, Yunnan Province which was named as Cuiyun District of Simao City before 8 April 2007) in this year. Based on the instruction, we have carried out limited scope of inspections, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of value of the Subject Assets as at the Date of Valuation.

According to the instruction given to us, the Subject Assets comprise the land use rights and inventory of standing trees in three forestry sites in Simao District, Puer City, Yunnan Province, the PRC. The three forestry sites form part of two state-owned forests designated as Forest No. 92 in Liu Shun Village and Forest No. 104 in Yi Xiang Town, Simao District. The inventory of standing trees of the Subject Assets comprise Simao Pines, oaks and other mixed tree species, and the timber of the standing trees can be used for furniture and building materials.

According to the IVS of which the HKIS Standards follows, the term "Market Value" is defined as "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". Under this definition, we further assumed that both the buyer and the seller contemplate the retention of the Subject Assets valued at its present location for the continuation of the current operations, and both seeking their maximum economic self-interest in arriving at an arm's-length transaction.

Since we are not authorised person to conduct forestry survey in China and the enormous resources required in conducting a detailed inspection and survey, we were further instructed to conduct our valuations based on the quantities given in a forestry survey report (the "Forestry Report") provided by the management of CCSL. The Forestry Report was prepared in September 2006 by 國家林業局調查局規劃設計院 (translated as Academy of Forest Inventory and Planning, State Forestry Administration), a forestry consultant in China.

Subsequent to the above instructions, we commenced with our valuations and this valuation report summarises the result of our work.

OVERVIEW (SEE NOTE)*Economic Outlook of China*

The economy of China is the fourth largest in the world when measured by nominal GDP (Gross Domestic Product). Its economic output for 2006 was 2.68 trillion USD and the GDP growth of China for last year was 10.7%. With the strong growth of China's economy at a compound annual growth rate of approximately 10.16% from 1990 to 2006, it is expected that the China economic growth would remain at 8.5% to 9% from 2008 to 2011. Due to large scale investments both from domestic and foreign companies, China's booming economy has consistently overshot government targets in recent years. Economists further estimated that the 2008 Olympic Games in Beijing would benefit China's national GDP by an additional one percent. Therefore, the overall prospects for the Chinese economy are favorable in the next few years.

Forest Products in China

Wood is one of the most important natural resources in the world. It has been an important construction material since humans began building shelters, houses and boats. Wood unsuitable for construction in its native form may be broken down mechanically (into fibres or chips) or chemically (into cellulose) and used as a raw material for other building materials such as chipboard, engineered wood, hardboard, medium-density fibreboard, oriented strand board. Wood derivatives can also be used for kinds of flooring, for example laminate flooring. The usefulness of wood has made it an important driver in a country's economy. Both its production and consumption can have great impact to the general economic development of a country. China, being one of the largest countries, has played an important role in the supply and demand of wood in the world.

According to official statistics, China has increased its forest coverage from 145 million hectares in 1990 to 175 million hectares in 2003 with a total timber volume of 13.6 billion cu.m. Despite the increase of forest coverage, China is relatively forest-poor given its large land area and population. In 2003, China's per capita forest coverage area was only 0.132 hectares compared to the world's per capita of 0.6 hectares. This shows that relative to other large countries, China's forest resources is relatively limited.

Note: The information provided in this section relating to the forestry industry and market is derived in part or extracted or referred to from various official and unofficial sources. The official sources include various governmental websites of the PRC and unece.org. The unofficial sources include various websites such as globalwood.org, newspapers and journals from various industry practitioners or analysts such as China Forestry Year Books. We need to state that such official and unofficial information have not been prepared or independently verified by us, and may not be consistent with other information compiled within or outside the PRC. None of our staff involved in preparing this report make any representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied upon. The reader should conduct his/her due diligence with regard to the correctness and accuracy of such information for his/her own use.

There are three main forest resources areas in China: Northern China and Inner Mongolia; Sichuan and Yunnan provinces in South-western China; and other ten provinces in Southern China. The Northeast and Southwest of China contain most of the natural forest and are almost all managed by state forest enterprises. The majority of plantations are located in the south which are primarily run by collectives. Since 1995, there is a decline of industrial roundwood production and a slight increase of production from 2003. The decline is mainly due to the depletion of China's mature natural forests. According to various statistics, eighty percent of China's state forest enterprises have exhausted their mature timber resources. The declining production has resulted in a smaller supply of high-grade logs. However, in recent years, China has devoted more areas to plantations than any other country in the world. These plantations are predominated by fast-growing species and short rotations.

As an example, pines are among the most important of species used for timber. This is because they are fast-growing softwoods that can be planted in relatively dense stands. Simao Pine is a very popular pine in Yunnan Province and it also contains large amount of fiber which can be used for paper production. The pollen and needles of Simao Pine are also used in medicine and other health care products. In 1994, the government borrowed USD 77,000,000 to carry out the Yunnan-Simao Forestation and Sustainable Wood Utilisation Project. The main objectives were to promote economic growth, reduce poverty, and enhance forest resource management in Jinggu County of Yunnan Province through the plantation of Simao Pines. This project was completed in 2004 which successfully increase employment opportunities in the area. It also reduced the country's dependence on imported pulp, increased wood fiber production in the southern part of the country where the climate supports forest growth.

The information revealed that the total output value of China's forestry industry was RMB1.065 trillion in 2006, up by RMB219 billion or 26% from 2005. Of the total, the output value of the primary forestry industry came to RMB471 billion, making up 44% of the national total, up 8% from 2005. The output value of the secondary forestry industry amounted to RMB520 billion, exceeding the primary forestry industry for the first time, up by 49% from 2005. The output value of the tertiary forestry industry reached RMB74.5 billion, a year on year increase of 21%.

The leading primary forestry industries' output value was RMB255 billion. Timber processing, wood and bamboo products industry were the leading second forestry industries, with an output value of RMB272 billion. The forest tourism industry was the leading tertiary forestry industry, with its outputs totalling RMB255 billion.

Due to the boost in the annual forest logging quota approved by the State Council, timber output in 2006 rose by 19% to 66 million cu. m. (cubic meters). Of the total, log yield grew by 22% or 11 million cu. m. from 2005 to 61 million cu. m. in 2006, while fuelwood yield fell by 7% to 5 million cu. m. Sawnwood yield was 30 million cu. m., up by 67% from 2005. Of the total, tropical sawnwood yield made up 21.88%.

China has rapidly become the world's largest exporter of forest products in value terms, and is second only to the United States (US) as an importer. China's own forests meet only a small part of its industrial roundwood appetite, with the result that China is now the world's number one importer of logs, both softwood and hardwood. Russia is the main source of softwood logs, supplying about 70% of China's needs. According to official Russian sources, China imports 19.2 million cu.m. of logs from Russia, but Russian experts estimate that in addition to that volume there is a significant supply of logs from the Far East region of Russia based on illegal logging.

Investments in Chinese mills and transportation, aided by government incentives, have led to a huge expansion in value-added processing, especially furniture, millwork and mouldings. Over the last decade China's furniture exports have grown at a rate of 34% per year and China is by far the major supplier of furniture to the US, and second only to Canada as a supplier of forest products. China's low-cost labour is balanced by rising raw material, energy and transportation costs. Competition from low-priced Chinese wood products is leading to the increasing trade disputes: complaints have been filed in the US, Canada, Germany and Italy. Although exports are escalating, domestic consumption equivalent to about 75% of production is rising with the standard of living.

China now dominates world trade in roundwood, even though its roundwood consumption is still much lower than European or North American removals. Most roundwood prices in Europe have risen, reflecting increased demand, in particular for softwood sawlogs, as well as the sharp rise in oil prices since June 2004, which has added to both production and transport costs.

The increases in energy prices, along with policies that favour sustainable development and increasingly promote renewable energy, are continuing to drive demand for wood energy upwards, sharply in some countries. Processed woodfuels, such as pellets in Europe have seen strong growth and there is now a well developed international trade in biofuels. High transport costs tend to favour processed fuels which need less volume or weight for a given energy content. Transport costs may well influence the location of new large scale investment in wood energy capacity, with coastal areas likely to be favoured, where fuel can be imported readily, as has been the experience in the Netherlands and Sweden. China's ambitious goal to increase bioenergy's share of its overall energy markets, coupled with its limited indigenous forest may result in demand for woodfuel well beyond China's boundaries.

There has been phenomenal growth in the level of furniture exports from China and southeast Asia into the five major importing countries, US, France, Germany, UK (United Kingdom) and Japan. The world furniture trade has opened up faster and more profoundly than anticipated and the impact on manufacturers in the US in particular, has been severe. Chinese labour costs are low but their large-scale enterprises are highly efficient and final quality is also high. China accounts for 43% of US wood furniture imports and 33% of Europe's. China may now be the world's number one furniture exporter, unseating Italy from this long-held position. Similar impacts are being witnessed in the flooring sector. Wood has increased its share of the flooring market in Europe, but faces stiff competition from non-wood products as well as imported flooring. In terms of parquet flooring, for instance, China has increased its market share from about 10% in 2000 to over 35% in 2005. In response to these pressures, a marketing campaign in Europe to promote "real wood" flooring is being launched to raise consumer awareness and to encourage demand, in competition against other flooring materials.

APPENDIX I VALUATION REPORT ON ASSETS TO BE ACQUIRED

(Portions of the above paragraphs are extracted from UNECE Timber Committee Statement on Forest Products Markets in 2006 and Prospects for 2007)

DESCRIPTION OF THE SUBJECT ASSETS

Based on the information made available to us, CCSL acquired the Subject Assets having a total land area of approximately 36,735 Chinese Mu via three various forest transfer agreements all dated 24 January 2007 at a total consideration of RMB32,600,000 for a term of 50 years from 24 January 2007 to 23 January 2057.

Forest No. 92, Liu Shun Village (雲南省普洱市思茅區六順鄉)

Based on the Forestry Report, we noted that Forest No. 92 is a mixed forest of mostly Simao Pine with transitioning trees of mixed species. Forest No. 92 site is located at the southwestern part of Simao District, it is not contiguous but rather fragmented into tracts and sub-plantation tracts.

According to a copy of a forest transfer agreement dated 24 January 2007 and made between the People's Government of Cuiyun District of Simao City (renamed to Simao District of Puer City effective on 8 April 2007) and CCSL, portion of the land use rights and forestry trees entitlement of Forest No. 92 were transferred to CCSL for a term of 50 years from 24 January 2007 to 23 January 2057 at a consideration of RMB 11.9 million Yuan.

Based on the Forestry Report, the subject forest covered a total site area of about 10,182 Chinese Mu and sub-divided into 38 sub-plantation tracts located in Tract Nos. 92, 93, 179, 182 and 187. We were given to understand that 3 various sub-plantation tracts in Tract No.186 were collectively owned in nature and excluded in the above mentioned agreement. The following table summarises the tracts and sub-plantation tracts included in the subject portion of the Forest No. 92.

Tract Nos.	Sub-plantation Tract Nos.	Total Sub-plantation Tracts
92	18	1
93	1, 2	2
179	3, 4, 5, 6	4
182	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18	18
187	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13	13
	Total Sub-plantation Tracts	38

Based on the Forestry Report, the estimated harvestable timber volume under the subject 38 sub-plantation tracts of Forest No. 92 was about 55,558 cu. m. which is equivalent to about 5.46 cu. m. per Chinese Mu. Average timber volume of 5.46 cu. m. per Chinese Mu is on the high side for normal mixed pine forest but still within reasonable level.

About 94% of the subject tree population was Simao Pine with stand age between 20 to 30 years old, diameter at breast height between 14 to 20 centimeters (“cm”) and merchantable height between 10 to 17 meters. About 99% of the timber volume was from mid-age trees.

Forest No. 104, Yi Xiang Town (雲南省普洱市思茅區倚象鎮)

Based on the Forestry Report, Forest No. 104 is an oak forest. Compared to pine forest, this forest type is more diverse and complex in structure. Forest No. 104 site is located at the southeastern part of Simao District, it is not contiguous but rather fragmented into tracts and sub-plantation tracts.

According to copies of two forest transfer agreements both dated 24 January 2007 and made between the People’s Government of Cuiyun District of Simao City (renamed to Simao District of Puer City effective on 8 April 2007) and CCSL, the combined land use rights and forestry trees entitlement of Forest No. 104 were transferred to CCSL for a term of 50 years from 24 January 2007 to 23 January 2057 at a total consideration of RMB 20.7 million Yuan.

Based on the Forestry Report, the subject forest covered a total site area of about 26,817 Chinese Mu in 96 sub-plantation tracts located in Tract Nos. 242, 243, 246, 247, 250 and 251. Tract No. 242 is located adjacent to a natural protective district. The following table summarises the tracts and sub-plantation tracts included in Forest No. 104.

Tract Nos.	Sub-plantation Tract Nos.	Total Sub-plantation Tracts
242	10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25	16
243	9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23	15
246	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15	15
247	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13	13
250	4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23	20
251	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17	17
	Total Sub-plantation Tracts	96

However, some sub-plantation tracts of the forest classified as fruit woods and bush areas totaling about 264 Chinese Mu have been excluded from the logging area and resulting in a net logging area of about 26,553 Chinese Mu. The following table summarises the sub-plantation tracts of Forest No.104 that has been excluded:

Tract Nos.	Sub-plantation Tract Nos.	Classification	Site Area (in Chinese Mu)
242	11	Fruit woods	55.5
242	20	Fruit woods	21
242	25	Fruit woods	58.5
243	14	Bush and economic forest	129
Total	5 Tracts		264

According to the Forestry Report, the total timber volume in Forest No.104 was about 175,960 cu. m. which is equivalent to about 6.56 cu. m. per Chinese Mu. After deducting the harvested timber estimated volume of fruit wood and scrubs, the net timber volume for Forest No. 104 was about 172,027 cu. m. and resulting in about 6.48 cu. m. per Chinese Mu.

About 100% of the tree population was oak specie with stand age between 17 to 50 years old, diameter at breast height between 14 to 24 cm. and merchantable height of between 11 to 15 meters. About 98% of the timber volume was from mid-age trees.

The particulars of the Subject Assets are summarised as follows:

Location	Tract Nos.	Site Area (in Chinese Mu)	Timber Volume (cu.m.)
Portion of No. 92 State-owned Forest, Liu Shun Village	92, 93, 179, 182 and 187	10,182	55,558
Portion of No. 104 State-owned Forest, Yi Xiang Town	242, 243, 246 and 247	16,344	123,967
Portion of No. 104 State-owned Forest, Yi Xiang Town	250 and 251	10,209	48,060
Total	11 Tracts	36,735	227,585

VALUATION PROCEDURES ADOPTED

In performing the valuation of the Subject Assets, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- to read and based on the content of the supplied materials such as the Forestry Report to arrive at our opinion. In the course of the valuation, we will assume the supplied data and information are correct and we will not ascertain the correctness of the information that contained in the supplied materials;
- to prepare and submit list(s) of required document and information regarding the Subject Assets during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the management of the Company and CCSL;
- to hold discussions with relevant personnel and to review various documents such as the Forestry Report in order to have a better understanding on the Subject Assets and the use of the Subject Assets as part of a going-concern business in the operation of CCSL;
- to conduct appropriate research/consultation in order to obtain sufficient industry information to support our valuations. The scope of research / consultation is at the valuers own discretion;
- to perform valuation of each of the Subject Assets by using the appropriate standards of value in accordance with the available standards; and,
- to document our findings and conclusion in our appraisal report.

THE BASIS OF VALUATION AND ASSUMPTIONS

The Subject Assets are valued on the basis of Market Value in continued use and as part of a going-concern business of CCSL. The continued use premise assumes that the Subject Assets will be used for the purpose for which the Subject Assets were conceived or is currently used. Implicit in this definition is the fact that a (hypothetical willing and able) buyer would not pay more to acquire the Subject Assets than he could reasonably expect to earn in the future from an investment in the Subject Assets.

Under the premise of continued use, the opinion of market value assumes operation and use of the Subject Assets at its present locations for continuation of the existing business. It further assumes that prospective earnings would provide a reasonable return to the Subject Assets valued plus the value of other assets not included in this valuation and adequate working capital.

Market value in continued use is not intended to represent the amount that might be realised from piecemeal or break-up disposition in the open market or for other alternate use.

This valuation is concerned solely with the value of the Subject Assets and our opinion of value is not related to or dependent upon the earning capacity of the business they are presently in use.

Unless otherwise stated, it is assumed that all required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed for any use on which the value estimates contained in this report are based.

In arriving at our opinion, we have also assumed that the management of CCSL has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as fire, insects and soil erosion) to the operation of the business and the proper usage of the Subject Assets.

Should this not be the case, it will have adverse impact to the values as reported.

FACTORS CONSIDERED IN THE VALUATION

Unless otherwise stated, the valuation of the Subject Assets has taken account of all pertinent factors affecting the Subject Assets and their ability to generate value as part of a going-concern business of CCSL. The factors considered in the appraisal included, but were not limited to, the following:

- the nature and the characteristics of the Subject Assets;
- the present use of the Subject Assets as part of a going-concern business of CCSL;
- the forestry industry in China and the world as a whole;
- the capability of CCSL or its associates or contractors to harvest the inventory of the standing trees in accordance with its schedule; and
- the risks facing the Subject Assets.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the management of the Company is requested to provide us the necessary documents to support that the legally interested party in the Subject Assets i.e. CCSL has free and uninterrupted rights to transfer and assign the Subject Assets (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full. Should this not be the case or only a restricted title was available (i.e. has a right to use but further application procedures are required), no commercial (market) value will be assigned to the subject Assets.

We have been provided with 3 various copies of the forests transfer agreements all dated 24 January 2007 and a PRC legal opinion dated 28 June 2007 issued by Global Law Office (the “Legal Opinion”) regarding the Subject Assets. According to the Legal Opinion, CCSL has obtained full legal and beneficial title free from all encumbrances in respect of the Subject Assets based on the 3 various forests transfer agreements. CCSL is the only legally interested party in the Subject Assets and has the right to transfer and assign it. However, we have not inspected the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We are not in the legal professional, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the Subject Assets. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the Legal Opinion with regard to the existing legally interested party in the Subject Assets. No responsibility and liability is assumed in relation to those opinions or copies of documents.

INSPECTIONS AND INVESTIGATIONS OF THE SUBJECT ASSETS

We have, where possible, conducted limited visual inspections of the Subject Assets in respect of which we have been provided with such information as we have requested for the purpose of our valuations. Due to physical barrier, we were unable to conduct any due diligence on the current occupation status of the said assets, and thus relied solely on the information provided by the management of the Company. No verification from our part is assumed. Due to the agreed-upon procedures basis, we were unable to inspect those assets which were covered, unexposed or inaccessible or not being arranged for inspection. We cannot express an opinion about or advice upon the condition of the Subject Assets and this report should not be taken as making any implied representation or statement about the conditions of the Subject Assets. No structural survey, investigation, test or examination has been made to each of the Subject Assets, but in the course of our limited inspections we did not note any serious defects in the assets inspected. We are not, however, able to report that the Subject Assets are free from rot, insect, infestations or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the Subject Assets, and that the inspection and the use of this report do not purport to be a conditional survey of the Subject Assets. We have assumed that the Subject Assets are free of rot and inherent danger or unsuitable materials and techniques. If the management of the Company is proposing to purchase the Subject Assets and wants to satisfy them as to the condition of it, then the management of the Company should obtain a third party surveyor’s detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

The purpose of the inspection is not to create an error free assets schedule or to have a full scope investigation on the quantity and the quality of the Subject Assets; rather, it is designed to give us a better understanding of the Subject Assets on a sampling basis. No responsibility or liability is assumed.

We have not carried out on-site measurements to verify the correctness of the dimensions, specifications and areas of the Subject Assets, but have assumed that the figures shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value did not include an independent land survey to verify the legal boundaries and the exact locations of the said assets. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries and location of the said assets that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the said assets should conduct its own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Subject Assets and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the Subject Assets. We have not carried out any investigation into past or present uses, either of the said assets or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Subject Assets from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the Subject Assets or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported.

No investigation has been made of the legal title or any liabilities attached to the Subject Assets. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the Subject Assets. We have not verified the original documents furnished to us, any responsibility for our misinterpretation of the documents, therefore, cannot be accepted.

APPROACH TO VALUE AND VALUATION METHODOLOGY

In the process of valuing each of the Subject Assets, we have considered the three generally accepted asset appraisal approach to value, namely the Market Approach, the Income Approach and the Cost Approach.

The *market approach* considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

The *income approach* is the present worth of the future economic benefits of ownership. This approach is generally applied to assets where there is an established and identifiable economic benefits market such as rental income or royalty income or to an aggregation of assets in an entire business enterprise/project including working capital and tangible and intangible assets.

The *cost approach* considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transportation, cutting, commissioning and consultants' fees. Adjustment is then made for accrued depreciation from physical deterioration, condition, utility, age, functional and economic/external obsolescence.

Based on the IVS and with reference to various accounting standards, the market-based comparable method i.e. the Market Approach has been adopted. The underlying theory of this approach is that existing market price is dependable parameter since it reflects how much the buyer is willing to pay and how much the seller is willing to give up his goods and services.

Land Use Rights

The land in China is owned by the State and transferability of land is subject to restrictions. The ownership of the land is combined with two statutory rights, namely right to possess and right to use.

The subject forests of which the subject land use rights valued are part of Forest No. 92 and Forest No. 104. The right to possess the land belongs to the State and the rights to use the land together with the standing forests were transferred to CCSL on 24 January 2007. At the time of our limited external inspections, we noticed that various village or secondary roads were connected to the peripheries of the subject forests and there were various aged Simao Pine, oaks and other mixed tree species planted over there. However, due to physical barrier on site and the agreed-upon procedures, no detailed inspections had been made.

According to the information made available to us, we were given to understand that CCSL is in the process of applying relevant forest right certificates. We have further received the Legal Opinion and we understand that CCSL has obtained an absolute title on the land use rights of the subject land and is able to transfer and assign together with the standing forests above as a unique asset. In our valuations, we have assumed that CCSL is the legally interested party in the Subject Assets and the Subject Assets can be freely transferred in the market without paying additional premium.

We have adopted the comparable sales method of the Market Approach (also called sales comparison approach) in this valuation. The comparable sales method considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

By using this approach, the land should be assumed to have the benefit of approved usage for the replacement of the existing improvement i.e. standing forest and it is always necessary when valuing the land, to have regard to the manner in which the land is developed by the existing improvement and site works, and the extent to which these realise the full potential value of the land.

Inventory of Standing Trees

Based on the Forestry Report, we understand that of the 198 sub-plantation tracts (included the subject 134 sub-plantation tracts) of Cuiyun District (renamed to Simao District effective from 8 April 2007) state-owned forest site surveyed, 24 sub-plantation tracts or about 12.12% were sampled during the survey with a sampling intensity of 91.67% in each sub-plantation tract. The sampling rates and correctness rates exceeded the 10% and 90%, respectively, sampling requirements of 《森林資源規劃設計調查主要技術規定》 (translated as The Forest Resources Verification Requirement). The volume tolerance or allowable error of the sampling is about 7.02%.

The Forestry Report did not provide the sampling design but the description provided indicates that simpler random sampling method was used with each sub-plantation equivalent to 1 grid and the number of grids were randomly selected.

Since in each design and sampling methodology, there is always an allowable error, meaning the total volumes are not exact figures, the figures in the inventory information provided in the Forestry Report were used as a valid data for the forest resources verification.

Based on the Forestry Report provided to us, we have arrived at net harvestable areas and net timber volume available for logging as follows:

Subject Site in Forest No.	Site Area <i>(in Chinese Mu)</i>	Net Volumes (cu.m.)
92	10,182	55,558
104	26,553	172,027
Total :	36,735	227,585

About 99% and 98% of the timber volume of Forest No. 92 and Forest No. 104, respectively, are mid-age trees.

In preparing our valuation of the inventory of standing trees, we conducted a limited visual inspection of the assets, interviewed relevant CCSL personnel to understand the scope of their operation and researched various forest industry sources to gather pricing and cost data for the valuation.

While we noted that the Forestry Report indicated that the survey was conducted during the entire month of September 2006 and the timber volume may have changed from the time of the survey to the Date of Valuation, we estimate that the difference due to growth rates would not be significant to substantially affect the over-all value. According to our understanding, there was also no harvesting conducted during the relevant period.

Based on the valuation procedures agreed with the Company prior to the commencement of our valuation and on the data gathered from CCSL personnel and outside sources, we have adopted the market approach in conducting our valuation. This method uses the present market value in terms of price per unit volume of the final product and the total merchantable volume of timber in the forest as basis for coming up with the estimated value. In using the market approach we have used the following formula to arrive at the estimated market value:

$$MV = (TV*RR) * P - C$$

Where:

MV Market value

TV Total volume of logs

RR Recovery rate

P Respective mill gate price per cu. m. of Simao Pine and oak round logs (see *Note*), and

C Costs to including harvesting and transportation, tax, forestry fund and planning.

Note: A bole or a large branch after felling. Under the International Tropical Timber Organisation definition it is referred to as Industrial Roundwood. Roundwood is wood in its natural state as felled or otherwise harvested, with or without bark, round, split, roughly squared or in other forms. Roundwood includes spars, posts, poles and piles.

From the total timber volume of 227,585 cu. m., we have used a recovery rate of 60% to allow for wastages, wood defects and possible sampling survey error.

Respective mill gate prices were taken from our interview with relevant CCSL personnel, local sawmill round log prices and wood products industry information in China. We have adopted prices ranging from RMB 700 to RMB 3,000 per cu. m. depending on the tree specie and age.

The costs considered in our valuation included felling and transportation of round logs from the forest to local point of sales, local taxes at harvesting point, forestry fund and planning expenses.

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Subject Assets. Unless otherwise stated, it is assumed that the Subject Assets are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

We are unable to identify any adverse news against the Subject Assets which may affect the reported value in our report as at the Latest Practical Date of this circular. Thus, we are not in the position to report and comment on its impact (if any) to the Subject Assets. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the value reported herein.

There are a number of factors that influence the prices of the round logs including seasonal price fluctuations. These factors may affect the volume and quality of product, the market prices of the product and other external factors, they are:

End product

The flow of timber from the forest to forest products passes through different stages of processing. Forest products such as logs (and firewood) are considered raw materials as they are removed from the forests with limited processing. Other products such as roundwood, splitwood and chainsaw lumber require a degree of conversion from the raw material. In China, there are a number of product types that are produced after further processing. These are engineered wood, sawmill lumber and chip wood. It is important to define the end use for different type of products.

The present operation of CCSL to produce round logs was taken into consideration in our valuation. We were informed that they are looking to construct a sawmill to produce sawn timber but this is still in very early planning stage.

Presence of natural defects in the wood

Presence of internal and external defects on the wood also affects the quality and volume of the materials. The estimated volume per tree will decrease depending on the extent of the defects. These factors may be brought by natural (pests and diseases) and physical causes (damage). Defects of the trunk comes in many forms, these are:

- **Physical defects**, which is brought about by hauling and handling of logs;
- **Rots**, whether internal or external rot also reduces the merchantable volume of the trees. External rots could be quantified, however, internal rots are difficult to estimate; and
- **Direction of grain**, also affects the quality and workability of the wood resulting to reduced recovery and reduced quality of the end product.

While these factors are not easily detectable, we have allowed for reasonable recovery rate in consideration of these possible defects.

Growth and Death Rates

Growth rates are also factors to be considered in the valuation. While there should be a plus or minus estimate of the incremental volume of the tree at the time of harvest so that this could be compared to the actual volume during the inventory, we have allowed for reasonable recovery rate in consideration these factors.

Calamities

The presence of typhoons, are factors that reduces the volume in forest stands. Strong winds brings with it increases risk of damage and mortality of the standing timber. We have allowed for reasonable recovery rate in consideration for these factors.

Time

The price per unit of the product is estimated using its current prices, which is only suitable for the present. While the market prices would be different based on cutting season, trends, costs, interest rates and time value of money, we did not allow for these factors due to lack of reliable data to forecast these changes.

Buyers' preference

Most buyers prefer logs with larger diameter measurements. Except for veneers, this means that the larger the diameter of a round log there would be high recovery rate if ever the buyer would process the logs in cut to sizes lumber. In taking this into consideration, we have adopted reasonable price adjustment between tree age in our valuation.

The scope of valuation has been determined with reference to the documents provided by the management of the Company and instruction given by the management of the Company.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of this appraisal, we were furnished with various copies of documents related to this appraisal and these copies have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not attorney of laws by nature, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company. No responsibility is assumed.

In the course of valuation, we have fully accepted advice given to us on such matters as planning approvals or statutory notices, titles, locations, quantities, easements, tenure, occupation, specifications, site areas and all other relevant matters.

Our procedures to value did not include undertaking a feasibility study of the proposed expansion of the Subject Assets. Accordingly we do not express an opinion as to the merit or demerit of any future expansion (if any).

Our engagement did not include an independent forestry survey to verify the information provided. We need to state that we are not in the forestry survey profession, therefore, we are not in the position to verify or ascertain the correctness with regard to the information provided. No responsibility is assumed.

When we adopted the work products from other professions, external data providers and/or the management of the Company in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applies in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

Unless otherwise stated, the base currency of our report is Renminbi Yuan ("RMB").

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. Our analysis and appraisal are based upon full disclosure between us and the management of Company of material and latent facts that may affect the appraisal. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

LIMITING CONDITIONS OF THIS VALUATION REPORT

This report is provided strictly for the sole use of and valid to the Company. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in a circular to the Company's shareholders' reference.

Our opinion of value in this report is valid only for the stated purpose and only for the Date of Valuation. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

OPINION OF VALUE

Based on the investigation, analysis, stated assumptions, limitations, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as of the Date of Valuation the market value of the Subject Assets (before taking into consideration any transaction costs), as part of a going-concern business of CCSL, is reasonably stated by the amounts of RENMINBI TWO HUNDRED AND NINETY EIGHT MILLION YUAN ONLY (RMB 298,000,000.00).

STATEMENTS

The concluded value in our report is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the guidelines as contained in the IVS as well as the HKIS Standards, and have been made in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Also, we have followed the requirements as contained in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of our report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of our report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no present nor prospective interest in the Subject Assets, the Company, CCSL or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited
Ho Chin Choi, Joseph
BSc PgD RPS(GP)
Managing Director

Contributing Valuers:

Rolando Arcaya *BSME ASA*

Elsa Ng Hung Mui *BSc MSc RPS(GP)*

Martin A. Talento *BSc MSc Licensed Forester*

Qualification Statements of the Valuers:

1. *Mr. Joseph Ho Chin Choi has been conducting assets valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Finland, Canada, Germany, Guyana and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs.*

mineral resources, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, Singapore, Canada and the United States of America. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

2. *Mr. Rolando R. Arcaya is an Accredited Senior Member (ASA) of the American Society of Appraisers in the discipline of machinery and equipment valuation. He specializes in the valuation of machinery and equipment in power projects, light and heavy industrial manufacturing plants, consumer products manufacturing, forest products manufacturing and special assets like stock and inventories. Rolando has over 20 years of valuation experience of which over 18 years were spent in Hong Kong. Over the length of his valuation experience, he has valued and managed the valuation of inventory of man-made forests and a number of forest product related industries like veneer and plywood plants, paper manufacturing plants, and logging concessions located in the Philippines. He has also valued a number of paper and wood processing plants in China for various purposes including accounting and financing purposes.*
3. *Ms Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 8 years of experience in valuing properties in mainland China. She obtained a Master Degree of Science in Finance and involved in various financial assets valuations and man-made forests in the past years. At present, she is a valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.*
4. *Mr. Martin A. Talento is a Licensed Forester in the Philippines. He obtained his Bachelor of Science in Forestry (Major in Social Forestry and Forest Governance) from University of the Philippines, Masters in Environment and Natural Resources from University of the Philippines Open University, Management major in Upland Management (Senator Francis Pangilinan scholarship grantee —continuing) from University of the Philippines Open University and undergraduate units in Forest Products Engineering in the University of the Philippines. He has more than 4 years experience in forest industry study and have worked in various companies as a forestry specialist in the preparation of forest management plans, survey, blocking and inventory of annual cutting area, Environmental Impact Assessment (EIA) studies, and issuance of Resource Use Permit for timber harvesting in two selected Community Forestry projects in the Philippines. He has expertise in forest based enterprise development, forest resources inventory, environmental management and forest land-use planning, biodiversity conservation, environmental impact assessment for timber and non-timber products, agroforestry, and biological monitoring. He has facilitated trainings in the use of GPS for forest surveys, training on the formulation of community management frameworks for local cooperatives, training in forest survey and mensuration and training in setting up of biological and threat monitoring systems.*

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS**(a) Interests of Directors**

As at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer.

(b) Interests of Shareholders

As at the Latest Practicable Date, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and to the best knowledge of the Directors or chief executive of the Company, the following parties (other than a Director or chief executive of the Company), had an interest or short position in the Shares or underlying Shares 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 and the amount of each of such persons' interest in such securities, together with any options in respect of such capital, were as follows:

Interest in the Shares and underlying Shares

Name of Shareholder	Nature of interest	Number of Shares (Long position)	Approximate % of issued share capital of the Company
Evolution Master Fund Ltd SPC, Segregated Portfolio M <i>(note)</i>	Beneficial owner	639,184,000	5.47%
Evolution Capital Management LLC <i>(note)</i>	Investment Manager	639,184,000	5.47%

Note: Evolution Capital Management LLC is the investment manager of Evolution Master Fund Ltd SPC, Segregated Portfolio M.

Save as disclosed above, as at the Latest Practicable Date, the Directors or the chief executive of the Company were not aware of any persons or corporations (other than a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares 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 was, 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, or in any options in respect of such capital.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there is no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN COMPETING INTEREST

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

LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

CORPORATE INFORMATION

- (a) The company secretary of the Company is Ms. Lee Pui Shan who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. She is also a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The qualified accountant of the Company is Ms. Lee Kwan Ching who is fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

- (c) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, of Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

- (d) The English text of the Prospectus Documents shall prevail over the Chinese text in the case of any inconsistency.