



China

Forest Industry

MLCFI:China Forest Industry Business Analysis

Financial and Operational Highlights

Operational data in 2008

in kEUR

ITEMS	2008	2007	Change
Revenue	2, 598	1, 863	39%
Cost	242	962	-75%
Gross profit	2, 356	901	161%
Expense	621	413	50%
Adjusted operating profit	1, 950	488	292%

1、 Revenue Analysis

The operating income increased by EUR 735K, or 39%, to EUR 2598K in 2008 from EUR 1863K in 2007, mainly due to substantial increase of bamboo harvesting income. The analysis of revenue change is as follows:

In 2008, parts of Fujian and Jiangxi province in China suffered a big snowstorm, although a little areas owned by our company has affected by the snowstorm, the wood of surrounding stricken area was cleaned up by deforestation, which led to a large supply of damaged wood in the market and seriously brought down the market price of wood. Furthermore, the financial crisis drove the timber market prices fall down sharply. However, bamboo price in 2008 was stable cause of the shortage of supply.

In view of the different changes of wood and bamboo market price, the management of our company adjusted log business plan timely according to the actual situation by reducing the amount of timber harvesting and increasing the amount of bamboo harvesting. The expectant profit goal of our company was successfully reached by harvesting 9326m³ of timber and 1.21million pieces of bamboo. In addition, due to the natural attributes of biological assets as year-by-year growth, the harvesting reduction in timber forest assets will not only avoid the price loss, but benefit from the natural growth of forest and the asset value-added income with the rebounded market price.

2、 Cost Analysis

The operating income had a substantial growth in 2008 compared to 2007, however the operating cost reduced by 75%, which is due to the following causes:

In 2008, the main income was from bamboo land, which is in joint operation with the local villagers.in which our company was responsible for bamboo maintenance, management and deforestation,and share the operating profits by 70% with the free of costs of forest land. The operating profit margin of this business is up to 53.22%

Business operations in 2007 included the transfer of forest assets so that the operating costs included the cost of the forest land transferred, however there's no this kind of business in 2008

3、 Asset analysis

According to the proposal of Mazars audit firm, biological assets was reflected by the fair value method subjected to IFRS in 2008, according to the valuation report, issued by JONES LANG LASALLE SALLMANNNS,the valuation of forest asset of CFI in 2008 is EUR21.8M, decreased by EUR2.9M compared to the valuation of 2007. The decreased price at the end of 2008 had caused the decreased valuation at that time.As the recovery of economy and elimination of snow disaster, market price of wood in 2009 has increased dramatically. By the end of the September in 2009, the price of wood increase averagely by19.61% compared to the end of the 2008, therefore the profit of change of fair value at the end of 2009 will be at least up to EUR3M.

Outlook

Carrying out forest land acquisition to expand the scale of resources is steady strategy of company. Due to the high speed economic development in China, the price of wood will steadily increase in the future, the valuation of forest land owned by our company will increase stably as well, which will not only provide generous profit to the investors but lay a solid foundation for the future development of our company.

As the process of forestry reform deepening in China, the cost of acquisition is rising as well. While carrying out the expansion of the scale of forest land strategy, our company has also kept an eye on entering the wood processing industry to expand the profit margin. In 2008, our company built 5800 M² wood processing factory in ZHUKOU Industrial park, and purchased a 10,000 M² industrial factory building which is about 30mins driving away from the railway and express station which will be put into operation in 2010. All this preparation will help our company to develop a longer industrial chain including tree planting, cultivation, maintenance,harvesting and wood processing & marketing.